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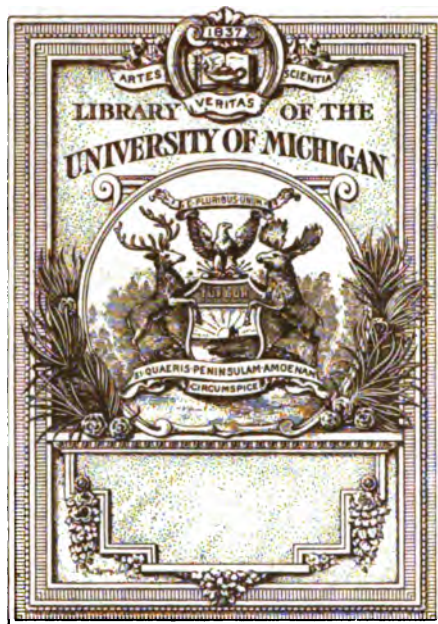
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ELEMENTS
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ACCOUNTS
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ELEMENTS OF ACCOUNTS



BY

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PREFACE

While this edition of the Elements of Accounts is intended primarily for use in the author's classes in Simmons College, it seems advisable to set forth certain reasons for adding one more to the numerous texts on bookkeeping and accounting which are available for use in private schools, high schools and colleges.

Any one interested in the book will, upon examination, observe that the greater part of the material given for practice work is of a type entirely different from that included in the text-books which are in general use. It is the author's contention that in many schools where bookkeeping is taught, too much time is devoted to mercantile and manufacturing accounts, to the entire neglect of various other types of bookkeeping which are of great importance.

An attempt has been made, therefore, to provide material of a different character for those schools giving courses in bookkeeping, which do not wish to specialize in mercantile and manufacturing accounts. The fundamental principles of double-entry bookkeeping are taught by means of a few short exercises in mercantile accounts, followed immediately by an application of these principles to the accounts of private individuals and professional men, small shops and institutions such as libraries, clubs, hospitals, and organizations of various kinds. Such material gives adequate practice in the application of accounting principles, makes a more practical appeal to many students and, at the same time, fits directly for the kind of work which a great many graduates of our schools will be called upon to do. Considerable attention is given to the preparation of financial reports for publication, work which is often included in the duties of the private secretary. The Federal Income Tax, as applied to individuals, is discussed in detail and a problem given in filling out the necessary blank for the Collector of Internal Revenue, which is work that the bookkeeper or private secretary is frequently called upon to do for private individuals, business and professional men. The fundamental principles of corporation accounts and investments are discussed from a practical point of view and in such a manner as will supply such information along these lines as the average individual needs in order to look after his affairs in a businesslike manner. A variety of supplementary drills and exercises are supplied for practice work involving the use of accounts peculiar to various lines of business. The treatment of business forms and papers is necessarily incomplete owing to the limitations of the present edition of the book.

It will be observed that detailed instructions for working out the different exercises and for recording the transactions involved have been omitted, as many teachers feel that those instructions which are actually needed in writing up the required exercise should be supplied by the teacher rather than by the text. Both instructor and pupil benefit by being obliged in this way to make a careful preparation for each lesson.

The script work in the book was done by Mr. Raymond G. Laird, Head Master, Roxbury High School, Boston, to whom the author is indebted for many helpful suggestions in the preparation of the book.

CHARLES F. RITTENHOUSE.

300 The Fenway, Boston, Massachusetts.

August 1, 1915.

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ELEMENTS OF ACCOUNTS.

§ 1. **Bookkeeping** is the recording in a systematic manner of business and financial transactions in appropriate books.

§ 2. There are two methods of keeping books, known as **Double Entry** and **Single Entry**.

§ 3. **Double Entry** is the name given to that method of bookkeeping which is based upon scientific principles. Every transaction is an exchange of value, something being given in exchange for something received; this exchange from a bookkeeping standpoint is always of equal value. Double Entry bookkeeping, in recognition of the two-fold character of all business transactions, provides for recording the thing given as well as the thing received; it is obvious that the result in every case is a "double entry." Under this method, the careful analysis of all transactions and the detailed classification of the items involved in the equation between things given and things received place the subject of bookkeeping quite properly among the applied sciences.

§ 4. **Single Entry** is the name given to any method of bookkeeping which is not based upon scientific principles. The practice of single entry may vary all the way from the keeping of personal expense accounts to a fairly complete record of transactions by a mercantile house or an institution. At best this method is but a "makeshift," and is seldom found in practice where any importance is attached to the bookkeeping records. Where used, it generally provides for nothing more than a record of cash receipts and disbursements, and in mercantile houses, for accounts with persons with which the business has dealings. By this method an entry is made for only one side of the exchange in a transaction, hence the name "single entry." Little attention is given to this method in textbooks on the subject of bookkeeping.

§ 5. **Debit and Credit:** These are technical terms used in the application of the principles of bookkeeping. The terms chiefly denote position, debits by universal custom being entered on the left side of an account; credits, on the right.

§ 6. **General Rules for Debiting and Crediting:** Debit the thing received, the receiver, and that which represents an expense or a loss; credit the thing given, the giver, and that which represents a profit or an income.

§ 7. **Debtor and Creditor:** A debtor is one who owes; a creditor, one who is owed. These terms apply only to personal accounts and should not be confused with debit and credit.

§ 8. An **account** is an appropriate title given to the classification of debits and credits; this applies to titles of things given and received, names of persons with which the business has dealings, and the names given to the various sources of income and kinds of expense. An account has two sides: a debit, or left side; and a credit, or right side. Examples are accounts with Cash, Expense, Wages, Sales.

§ 9. **Journalizing** is the fundamental process in bookkeeping and consists first of determining the accounts to be debited and credited in a business transaction and of recording the transaction in the Journal. The term is often used when only the mental process of determining debits and credits is referred to, regardless of the book in which the entry is made.

§ 10. The books commonly used in a study of the elementary principles of bookkeeping are a **Journal** and a **Ledger**. In actual practice, however, these books are not used alone, other books being added to provide more convenient and systematic records, according to the needs of a particular business or institution.

§ 11. The **Journal**, as it is used in an elementary way, is a book in which a record is made of every business transaction as it takes place, a debit and a credit to the proper accounts being shown with the corresponding amount. (See Form 1, page 6.)

In actual practice, when used in connection with other books of original entry, the Journal is used only for those transactions which do not naturally belong in any other book. Memoranda and data of an historical nature are often recorded in the Journal.

§ 12. The **Ledger** is commonly called the "book of accounts," because it contains all the accounts kept by a business or an institution. The debits and credits to each account are brought together in this book, under its proper title, so that a summary of all transactions affecting the account is shown. (See Form 2, page 8.)

§ 13. **Books of original entry** are those books in which entries are made for daily transactions and from which posting is done. Examples: Cash Book, Journal, Sales Book, Voucher Register.

§ 14. **Auxiliary books** are those books which aid in the keeping of complete records but which are not used as regular books of entry. As a rule, no posting is done from such books. Examples: Check Book, Stock Certificate Book, Petty Cash Book.

§ 15. **Posting** is the process of transferring the debits and credits from the books of original entry to their respective accounts in the Ledger.

Posting is usually done daily during the bookkeeper's spare time, an effort being made to keep the entries posted to date as nearly as possible. By this means, the condition of every ledger account is known at all times and the trial balance can be taken promptly at the end of the month.

§ 16. **Folioing** is the process of placing next to each debit or credit in a book of original entry the number of the page to which the item is posted in the ledger; also, of placing in the ledger the number of the page and the initial of the book from which the entry came. Folioing is a part of the process of posting.

§ 17. A **Trial Balance** is a periodical test made of the Ledger to see if the sum of all debits equals the sum of all credits. As each transaction consists of an exchange of equal value, resulting in the same amount being posted to both the debit and credit sides of the Ledger, it follows that at any time when all the posting has been done, the two sides of the Ledger should balance. (See Form 3, page 9.)

The trial balance is one of the great advantages of double entry bookkeeping and is one of its most interesting features, as well. By means of it there is a constant check upon the accuracy of the bookkeeper as well as a periodic summary of all transactions showing the general trend of the business.

It should constantly be borne in mind that a clerical error is not revealed by a trial balance if it has affected both sides of the Ledger alike.

§ 18. A **profit** is any item which represents a gain, an increase in value, or a return to the owner of a business.

A **loss** is any item of expense or any decline in the value of property.

Assets are those things of a money value owned by a business or an institution. Assets are frequently called resources.

Current Assets are those assets which are in a constant state of change resulting from business operations. Examples: Cash, Notes Receivable, Accounts Receivable, Merchandise on Hand. Also called Floating Assets and Quick Assets.

Fixed Assets are those of a permanent nature bought to be used in carrying on the business. Examples: Real Estate, Machinery, Office Equipment.

Liabilities are the debts of a business or an institution.

Current Liabilities are those which are maturing from day to day, as Accounts Payable and Notes Payable.

Fixed Liabilities are those of longer standing, as Mortgages and Bond Issues.

§ 19. A **Profit and Loss Statement** is a summary of the accounts which represent either a profit or a loss to the business, arranged in such a manner as to make clear the sources from which all profits were derived and the various classes of expenses and losses. The excess of profits over losses is called **net profit**; excess of losses over profits, **net loss**.

This statement is also called a Business Statement, a Loss and Gain Statement and an Income and Expense Statement.

§ 20. A **Balance Sheet** is a summary of assets and liabilities and shows the exact financial condition of a business or institution. The excess of assets over liabilities is called **net worth** and in a business conducted by an individual or by partners is represented by the net investment plus the net profit or minus the net loss.

The **net investment** is the original investment less any withdrawals of cash or goods.

The Balance Sheet is frequently spoken of as a Financial Statement, Statement of Condition, Statement of Resources and Liabilities, Statement of Assets and Liabilities.

§ 21. Some General Principles Applying to Accounts:

Every account belongs either to the Profit and Loss group or to the Balance Sheet group. Balance Sheet accounts are often spoken of as Real accounts; Profit and Loss accounts, as Nominal Accounts.

Losses are always debits; profits are always credits.

Assets are always debits; liabilities are always credits.

Surplus is always a credit; deficit is always a debit.

An account with a debit balance shows, therefore, either a loss or an asset; an account with a credit balance, either a profit or a liability, or an element of net worth such as the investment account of the proprietor or partners, or a surplus.

**RULES FOR DEBITING AND CREDITING THE ACCOUNTS THAT ARE COMMON TO
A MERCANTILE BUSINESS**

§ 22. Proprietor of a Business.

PROPRIETOR

Debit:

With withdrawals of either cash or merchandise.

Credit:

With investments of cash or property in any form.

The balance represents the net investment.

At the time of closing the books, the account is credited with the net profit or debited with the net loss, after which the balance shows the net worth of the proprietor.

§ 23. Cash.

CASH

Debit:

With all cash received.

Credit:

With all cash paid.

The balance shows the cash on hand and is an asset.

Cash in a bookkeeping sense includes coin, paper money, checks, bank drafts, express and post office money orders.

§ 24. Purchases.

PURCHASES

Debit:

With merchandise purchased at cost price.

With freight on goods bought unless a Freight and Cartage account is kept, which is the more common practice.

Credit:

With goods returned; with goods taken from stock by the proprietor; with goods sold to employees at cost.

The balance represents net purchases and, minus the inventory at the end of the period, shows the cost of goods sold.

§ 25. Sales.

SALES

Debit:

With returned sales.

Credit:

With sales.

The balance represents net sales.

§ 26. Expense.**EXPENSE****Debit:**

With all expenses of the business not charged to special accounts which may be kept with certain classes of expense.

The balance represents the expenses of the business.

Some of the common expenses of a business are rent, fuel, light, telephone, postage, repairs, janitor service, insurance, clerk hire.

Credit:

With any rebates or returns realized from what was originally charged to the account.

§ 27. Accounts Receivable.

This term includes all accounts with customers and with other persons indebted to the business.

ACCOUNTS RECEIVABLE**Debit:**

Persons when they become indebted to the business.

The balance represents the amount owing by the person and is an asset.

Note.—Accounts Receivable is a general term applying to all personal accounts of the class indicated. In applying the rules given, the student should always debit or credit the individual customer concerned in the transaction.

Credit:

Persons when they pay the business or are given credit for goods returned or allowances made.

§ 28. Accounts Payable.

This term includes all accounts with creditors.

ACCOUNTS PAYABLE**Debit:**

Persons when we pay them on account or are given credit for goods returned or for allowances made.

The balance represents the amount owing by us and is a liability.

(See note above applying to Accounts Receivable.)

Credit:

Persons when we become indebted to them.

§ 29. Notes Receivable.**NOTES RECEIVABLE****Debit:**

At face value for all notes or written promises to pay which are received.

The balance is always a debit showing the total of all notes held by us and is an asset.

Credit:

At face value with all notes paid in full; with partial payments made; with notes discounted at bank or transferred by endorsement to third parties.

§ 30. Notes Payable.**NOTES PAYABLE****Debit:**

At face value with notes paid in full and with partial payments made thereon.

The balance is always a credit which shows the total of all notes outstanding and is a liability.

Credit:

At face value with all notes issued.

§ 31. Interest.**INTEREST****Debit:**

With interest paid.

The balance if a debit represents a loss; if a credit, a profit.

Credit:

With interest received.

§ 32. Discount.

DISCOUNT

Debit:

With discount allowed by us on notes discounted at bank or endorsed to private persons.

Credit:

With discount allowed to us on notes taken by us at less than their face value.

The balance if a debit represents a loss; if a credit, a profit.

Frequently, no distinction is made between Interest and Discount, only one account being kept, called Interest, or Interest and Discount.

§ 33. Merchandise Discount.

MERCHANDISE DISCOUNT

Debit:

With discount allowed by us for the payment of a bill of goods within the term of discount.

Credit:

With discount allowed to us on bills paid within the term of discount.

The balance if a debit represents a loss; if a credit, a profit.

Frequently, two accounts are kept, one called Discounts on Purchases; the other, Discounts on Sales.

§ 34. Real Estate.

REAL ESTATE

Debit:

With the original cost of the property and with improvements and additions which increase its value.

Credit:

When sold with the sale price.

The balance represents the cost of real estate owned and is an asset; or if it has been sold, the balance before closing the books shows the profit or loss resulting from its sale.

A separate account should be kept with each piece of property owned, the name of the account indicating the location; as 727 Summer Street; Lakeville Apartments.

All expenses connected with the maintenance of the property should be charged to a separate account, care being taken that a distinction is always made between an outlay which is in the nature of an improvement and one which is a maintenance expense.

§ 35. Furniture and Fixtures.

FURNITURE AND FIXTURES

Debit:

With the cost of furniture and equipment purchased.

Credit:

With the cost of furniture and equipment disposed of.

The balance shows the cost of furniture and equipment on hand.

Furniture and fixtures include shelves, counters, desks, chairs, tables, typewriters, adding machines, safe, cash register, filing cabinets.

§ 36. Office Supplies.

OFFICE SUPPLIES

Debit:

With the cost of office supplies purchased.

Credit:

With supplies sold or returned for credit.

The balance shows the amount expended for office supplies during a fiscal period and, less the amount of supplies on hand, represents a loss.

Office supplies include stationery, typewriter paper and supplies, pencils, pens, ink stands, ink, paper clips, etc.

FORM 1. MODEL JOURNAL

Boston, Mass., January 1, 1915.

1	Cash	Began business on this day investing cash.	5000 -		5000 -
1	F. E. Wilson				
1	Purchases	Bought of Thomas Cutler, for cash, goods as per invoice.	500 -		500 -
1	Cash				
1	Cash	Sold H. A. Farmer for cash, goods as per bill rendered.	325 -		325 -
1	Sales				
1	Expense	Paid January store rent.	200 -		200 -
1	Cash				
1	Purchases	Bought of Amos French & Co., for cash, goods as per invoice.	712 60		712 60
1	Cash				
1	Purchases	Bought on account, 30 days, goods as per invoice.	382 65		382 65
2	James Grundy				
1	Cash	Sold T. J. Hammond, for cash, goods as per bill rendered.	622 25		622 25
1	Sales				
2	E. W. Clark Co.	Sold on account goods as per bill rendered.	216 75		216 75
1	Sales				
1	Expense	Paid B. A. Lyman for office books and stationery.	326 0		326 0
1	Cash				
2	Notes Receivable	Received note of Jan. 11 at 30 days, with interest at 6%, due Feb. 10, for \$100, and check for \$116.75 for bill of the 10th	100 -		
1	Cash		116 75		
2	E. W. Clark Co.				216 75

EXERCISE 1

November, 191—

Make entries for the following transactions on a sheet of Journal paper; numbers to the left of the transactions indicate dates; numbers in parentheses following the transactions indicate the preceding sections containing rules to be followed.

1. Robert Shaw establishes a wholesale dry goods business, investing \$10,000 in cash. (See sections 22 and 23.)

2. Bought, for cash, furniture and fixtures costing \$1200. (See sections 23 and 35.)
2. Bought office supplies for cash, \$50. (See sections 23 and 36.)
2. Bought, for cash, coal for use in the store, \$72. (See sections 23 and 26.)
3. Bought, for cash, of the Arlington Mills merchandise, \$3200. (See sections 23 and 24.)
4. Bought of A. Chase & Co., for cash, merchandise costing \$1650.
5. Sold merchandise to Charles Burton & Sons for cash, \$1975. (See sections 23 and 25.)
6. Sold merchandise to W. A. Wallace for cash, \$2750.
6. Bought of Acme Shirtwaist Co., for cash, merchandise, \$450.
7. Sold merchandise to Thomas Perkins & Co. for cash, \$800.
8. Paid rent for the month in cash, \$100.
8. Paid clerks' wages for the week, \$60. (See sections 23 and 26.)
9. Sold merchandise to Joseph Wilson for cash, \$1370.
10. Bought of Hub Manufacturing Co., for cash, merchandise, \$1250.

On a sheet of Ledger paper open accounts with all the separate accounts which you have debited or credited in the preceding transactions, allowing one-fourth of a page to each.

Take a Trial Balance.

ELEMENTS OF ACCOUNTS

FORM 2. MODEL LEDGER

F. E. Wilson

						1915 Jan. 1	J 1	5000 -	
						Cash			
1915 Jan.	1	$\begin{array}{r} 6064.20 \\ 1,415.80 \\ \hline 4618.80 \end{array}$	J 1	5000 -	1915 Jan.	2	J 1	500 -	
	3		J 1	325 -		4	J 1	200 -	
	8		J 1	622 25		5	J 1	712 60	
	12		J 1	616 75		10	J 1	32 60	
						Purchases			
1915 Jan.	2		J 1	500 -					
	5		J 1	712 60					
	6		J 1	352 65					
						Sales			
						1915 Jan.	3	J 1	325 -
							8	J 1	622 25
							9	J 1	216 75
							12	J 2	1,471 50
						Expense			
1915 Jan.	11		J 1	200 -					
	10		J 1	232 60					

FORM 3. MODEL TRIAL BALANCE

Trial Balance, January 12, 1915

1	F. E. Wilson			50.00	-
1	Cash	4618	80		
1	Purchases	1595	25		
1	Sales			1311	50
1	Expense	232	60		
2	James Grundy			392	65
2	T. J. Tucker	147	50		
2	Notes Receivable	100	-		
		6694	15	6694	15

EXERCISE 2

December, 191—

1. R. S. Barrows began the wholesale dry goods business, investing cash, \$10,000. He engages you as bookkeeper at \$15 per week.

1. Bought furniture and fixtures for cash, \$2000.
1. Bought office supplies for cash, \$112.
2. Bought merchandise of the Hub Manufacturing Co. for cash, \$4125.
2. Paid rent of store for December, \$200.
3. Bought merchandise of the Acme Waist Co. for cash, \$2327.50.
3. Sold merchandise to J. C. Lyons & Co. for cash, \$637.80.
4. Sold merchandise to Adams Bros. for cash, \$1020.45
4. Bought merchandise of the Arnold Print Works on account, \$1420. (See section 28.)
5. Sold merchandise to the Morgan Co. on account, \$1690. (See section 27.)
5. Bought merchandise of the Colonial Cloak Co. on account, \$921.50.
6. Sold merchandise to Thomas Shepard on account, \$327.75.
6. Pay clerks for the week, \$190; bookkeeper, \$15.
8. Sold merchandise to W. L. English on account, \$582.
8. Gave the Colonial Cloak Co. promissory note at 10 days, bearing interest at 6%, in payment of bill of the 5th. (See section 30.)
9. Received promissory note at 10 days, bearing interest at 6%, from Thomas Shepard in payment of bill of the 6th. (See section 29.)
10. Sold merchandise to H. E. Stevens on account, \$1370.65.
10. Received check from W. L. English to apply on bill of the 8th, \$300.
11. Bought merchandise from the Hub Manufacturing Co. on account, \$1160.
11. R. S. Barrows withdrew for personal use, \$100. (See section 22.)
12. Sold merchandise to J. C. Lyons & Co. on account, \$2118.20.
12. Received note at 10 days bearing interest at 6% from H. E. Stevens to apply on bill of the 10th, \$500.
13. Pay clerk hire and wages of bookkeeper for the week.
13. Received check from W. L. English to apply on bill of the 8th, \$100.
15. Sold merchandise to Adams Bros. on account, \$765.
15. Bought merchandise from Hub Manufacturing Co., \$450. Terms, 3% discount in 10 days.
16. Received check from The Morgan Co. for \$500 and note at 30 days for \$750 without interest, to apply on bill of the 5th.
16. Bought merchandise of the Acme Waist Co. on account, \$325.

17. Sold merchandise to J. C. Lyons & Co., \$872.50. Terms, 1% discount in 10 days.
17. Sold merchandise to Thomas Shepard on account, \$1250.
17. Gave Hub Manufacturing Co. check for \$500 in part payment of bill of the 11th, and note for 10 days bearing interest at 6% for the remainder.
18. R. S. Barrows withdrew from stock for family use, merchandise which cost \$25. (See section 24.)
18. Sold merchandise to W. L. English on account, \$482.75.
18. Gave Colonial Cloak Co. check for the note due today with interest. (See sections 30 and 31.)
19. Bought merchandise of Colonial Cloak Co. on account, \$732.80.
20. Received check from Thomas Shepard in payment of note due yesterday with interest. (See sections 29 and 31.)
20. Paid clerk hire and bookkeeper's wages for the week.
22. Gave Arnold Print Works check for \$1000 to apply on bill of the 4th.
23. Bought merchandise of the Arnold Print Works on account, \$525.
24. Paid Hub Manufacturing Co. bill of the 15th less 3% discount. (See section 33.)
24. Received check from H. E. Stevens in payment of note due the 22d with interest.
24. Sold merchandise to J. C. Lyons & Co. on account, \$1175.
26. Sold merchandise to Adams Bros., \$400, taking their note at 30 days in payment.
27. Received check from J. C. Lyons & Co. in payment of bill of the 17th less 1% discount.
27. Gave note at 60 days to Colonial Cloak Co. for \$250 to apply on bill of the 19th.
27. Paid Hub Manufacturing Co. for note due today with interest.
27. Paid clerk hire and wages for the week.
28. Bought merchandise of Acme Waist Co. on account, \$1900.
29. Sold merchandise to The Morgan Co. on account, \$1962.70.
30. Gave Acme Waist Co. note at 90 days to apply on account, \$1000.
30. Pay freight bills on goods purchased during the month, \$360. (See section 24.)
30. Discount at the Commercial Bank for the unexpired time, note of \$750 received from The Morgan Co. on the 16th. (See section 32.)
31. Adams Bros. returned for credit a part of the goods sold them the 26th, \$52.60.
31. Pay gas and electric light bills for the month, \$39.12.
31. Bought merchandise of the Arnold Print Works, \$2512.60; gave in part payment note at 60 days for \$1000 and check for \$500.
- (a) Open all necessary Ledger accounts.
- (b) Post and take a Trial Balance.
- (c) Prepare a Profit and Loss Statement. Merchandise inventory, \$6122.50.
- (d) Prepare a Balance Sheet.
- (e) Make closing entries and post them.
- (f) Rule Ledger accounts.

The following models are to be used in the preparation of the statements asked for and in making the closing entries:

PROFIT AND LOSS STATEMENT, December 1-31, 191—

Gross Sales.....	****	
Less:		
Goods Returned.....	****	
Net Sales.....		****
Deduct:		
Cost of Goods Sold:		
Net Purchases.....	****	
Less:		
Inventory, December 31.....	****	****
Gross Profit on Sales.....		****
Add:		
Merchandise Discount.....		****
Total Profit.....		****
Deduct:		
Expense.....	****	
Office Supplies.....	****	
Discount.....	****	
Interest.....	****	****
Net Profit.....		****

BALANCE SHEET, December 31, 191—

Assets

Cash.....	****	
Notes Receivable.....	****	
Accounts Receivable.....	****	
Merchandise Inventory.....	****	
Furniture and Fixtures.....	****	
Total Assets.....		****

Liabilities and Net Worth

Notes Payable.....	****	
Accounts Payable.....	****	
Total Liabilities.....		****
Net Worth:		
R. S. Barrows, Investment.....	****	
Less:		
Drawings.....	****	
Net Investment.....	****	
Add:		
Net Profit.....	****	****
Total Liabilities and Net Worth.....		****

§ 37. **Closing Entries:** There are two ways by which the Ledger may be closed: (1) By cross entries made directly in the Ledger, (2) by closing entries made in the Journal and posted to the Ledger.

While either method accomplishes the same purpose, the closing through the Journal is based upon sounder bookkeeping principles; the reason in support of this method is that the Ledger is the book of accounts, and all items appearing therein should be posted from a book of original entry.

Closing the Ledger consists of closing all profit and loss accounts, leaving the balance sheet accounts open. This is done at the end of a fiscal period in order that accounts with operating expenses and with income may be started anew at the beginning of the next fiscal period.

§ 38. **Profit and Loss Account:** A profit and loss account is opened in the Ledger into which the profit or loss shown by each account of this class is closed, profits being posted to the right of the account and losses to the left; the balance shown by this account after all accounts showing a profit or a loss have been closed into it, represents the net profit, if a credit; the net loss, if a debit. This balance is carried to the proprietor's account which closes the profit and loss account, while the proprietor's interest in the business as represented by his account is correspondingly increased or diminished as a result of the business operations of the period.

CLOSING ENTRIES, December 31, 191—

Sales.....	****	
Purchases.....		****
To close into the Sales account the cost of goods sold during December, leaving a balance to the Purchases account equal to the inventory of 12/31.		
Sales.....	****	
Profit and Loss.....		****
To close into the Profit and Loss account the gross profit on sales for December.		
Merchandise Discount.....	****	
Profit and Loss.....		****
To close into the Profit and Loss account all accounts which represent a profit.		
Profit and Loss.....	****	
Expense.....		****
Office Supplies.....		****
Discount.....		****
Interest.....		****
To close into the Profit and Loss account all accounts which represent a loss.		
Profit and Loss.....	****	
Proprietor.....		****
To credit the proprietor with the net profit for the month of December.		

CASH BOOK

The Cash Book is a book in which all cash receipts and payments are recorded. In its usual form it is a double-page book, all cash receipts being recorded on the left-hand, or debit page, and all cash payments, on the right-hand, or credit page. When a Cash Book is used, no entries for cash receipts and payments are made in the Journal. The same principles of debit and credit, however, apply to an entry made in the Cash Book as to an entry for the same transaction in the Journal. For example, if \$500 cash is received from W. H. Brown on account, the entry journalized would be "Cash to W. H. Brown, \$500." The same entry would be recorded in the Cash Book on the debit side. By doing so, Cash is automatically debited without the word "Cash" being written as is necessary in a Journal entry. W. H. Brown, the account credited, is entered in the space for that purpose followed by an explanation and the amount entered in the proper money column. The same reasoning applies to the entry made on the credit side of the Cash Book to record a payment of cash.

At any time the difference between the debit and credit side of the Cash Book should equal the cash on hand as shown by the balance on the stub of the Check Book plus any cash that may be in the drawer or safe. The process of determining whether these balances are in agreement is called "proving cash," which is done at least once a day.

The Cash Book is balanced at the end of the month. At the time of closing the Cash Book at the end of the month, the total of the cash receipts for the month is posted in one amount to the debit side of the Cash account in the Ledger; the total of the cash disbursements is likewise posted in one amount to the credit side of the Cash account.

In actual practice, the Cash Book is usually the most important book of original entry. However, it is rarely found in the form illustrated in the model given below, although this is the form which will be used in the elementary Cash Book exercises which are given. In practice, the Cash Book is usually provided with special columns corresponding to the principal classes of receipts and disbursements of an ordinary business house or institution. By the use of special columns, the bookkeeping is better systematized and the number of postings considerably reduced, as the monthly totals of all special columns are posted to the proper Ledger accounts instead of individual items, as is necessary when a simple form of book is used; it will also be seen that a great deal of space is saved in the Ledger because of the reduced number of postings.

Many large business houses and institutions find it more convenient to keep a Cash Receipts Book and a Cash Disbursements Book instead of a single Cash Book. Some of the advantages of keeping receipts and disbursements in two separate books are:

- (1) The width of either book may be adapted to the number of special columns required.
- (2) Waste of space is avoided. In some businesses the receipts considerably exceed the disbursements in number; in others the disbursements are in excess of the receipts. If only one book is used for cash transactions, there is much waste space from forwarding to a new page and from balancing at the close of a month.
- (3) Where the clerical work of the office is divided among several bookkeepers the work may be planned to better advantage. Cash receipts are usually heavier in the morning, whereas most of the disbursements are more conveniently recorded during the late afternoon. A clerk may thus be using the Cash Disbursements Book for posting or other purposes during the morning, while the cashier is recording the receipts, and may correspondingly have the use of the Cash Receipts Book in the afternoon while the disbursements are being written up.

EXERCISE 3

Design a Cash Book on journal paper according to the model form shown on next page and record therein the cash transactions occurring in Exercise 2. Close the Cash Book as of December 31.

EXERCISE 4

Record the following transactions in a Cash Book and balance the book after entries are made.

May 1, 191—

1. Balance \$3124.12.
2. J. W. Monroe pays his account of \$115.
3. Gave A. C. Bell our check for \$75 in payment of one month's rent of store.

DATE	L.F.	ACCOUNT CREDITED	EXPLANATION	CASH DR.	TOTAL
July 1		Balance	Bank ^{\$127960} Drawer ³⁴⁷⁵		
1		Mrs. E. B. Emerson	Bill June 1	3690	
5		Membership Dues	12 Members	120 -	
6		Donations	Mrs. C. Q. Chandler	500 -	
8		J. B. Ayer	To July 1	322	
9		Miss E. B. Dearborn	Bill June 10	415	
10		Gertrude W. Hunt	To June 1	960	
12		Membership Dues	5 members	50 -	
15		Candy Sale	Gross receipts	6720	
22		Donations	Henry Milton	50 -	
24		C. L. Lothrop	To July 1	2680	
25		Mrs. E. P. Harvey	" " 1	1960	
30		Membership Dues	20 members	200 -	
31		Cash Dr			108747
					240182
Aug 1		Balance			134333

4. Paid A. W. Stone's invoice of August 18, amounting to \$1693.50, less 2% discount.
5. Discounted note of C. W. Norris for \$320 at the First National Bank; period of discount, 27 days; rate of discount, 4%.
6. Paid freight on invoice of goods received from Wanamaker & Co., \$17.85.
7. A. P. Smith, traveling salesman, reports this week's expense bill \$61.20, and we remit him New York draft for this amount.
8. An office desk which we do not need has been sold to H. L. Parker for \$45.
9. Paid our taxes on property located at 165 Elm St., \$41.20.
10. Randell & Co. have sent us a check in payment of a bill of goods amounting to \$387.25 sold them April 1, less 3%.
11. Received a check of \$175 from A. W. Summer to apply on a note of \$500, which we hold against him.
12. Paid our note of \$270 due today, held by the Fourth National Bank, with 90 days' accrued interest at 6%.
13. Received a check from Miller Bros. for \$17.50 in payment of interest on a note which we hold against them.
14. Loaned W. H. Wilson \$200, and took his note for 60 days as security.
15. Cash sales of merchandise for the day amount to \$97.40.
16. Bought of W. A. Clark Coal Co., 16 tons coal at \$7.80 per ton.
17. Discounted our \$200 note at the First National Bank and received credit for the proceeds. Discounted at $5\frac{1}{2}\%$ for 4 months.
18. J. E. Maynard went into bankruptcy some time ago, owing us at the time a book account of \$76.38. His affairs have now been settled up and his creditors now receive 40% of amounts due them. We receive a check on this basis. Make the entry to close his account.

MODEL CASH BOOK

DATE	L.F.	ACCOUNT DEBITED	EXPLANATION	CASH CR.	TOTAL
July	1	General Expense	Office rent, July	72 -	
	2	Office Supplies	E. W. Clark Co.	17 60	
	3	General Expense	Insurance bill	38 25	
	4	Office Equipment	Rem. Typewriter Co.	1 00 -	
	5	Office Supplies	Postage	21 50	
	6	Wages	Pay roll for week.	132 -	
	7	General Expense	Repairing clock.	3 -	
	10	Lecture Course 1915	John C. Winters.	50 -	
	13	Wages	Pay roll for week.	132 -	
	19	Office Equipment	Hall Desk Co.	62 50	
	20	Wages	Pay roll for week.	132 -	
	25	Purchases	J. A. Hall.	72 55	
	27	Wages	Pay roll for week.	132 -	
	30	General Expense	Telephone bill, July	19 20	
	31	General Expense	Electricity	37 64	
	31	General Expense	Laundry.	28 75	
	31	Office Supplies	C. H. Lyman & Co.	2 50	
	31	General Expense	Cleaning office	5 -	
	31	Cash Cr.			1058 49
	31	Balance.	Bank drawer	\$1301.30 42.03	1343 23
					2401 82

19. C. E. Williams has drawn a sight draft on us for \$145 in payment of our account with him in favor of J. W. Cole which draft, we have honored.

20. Paid salaries of bookkeepers and stenographers for the week, \$60.

EXERCISE 5

(Follow instructions for Exercise 4)

June, 191—

- Balance, \$4722.85.
- E. B. Hunt pays \$225 on his account.
- Cash sales of merchandise reported by our delivery wagon amount to \$22.50, which amount has been turned in by the driver.
- Paid our coal bill for March, \$15.
- We pay for invoice of goods bought of J. M. Snow on February 1, less 2% discount allowed us. Amount of invoice, \$1230.
- Paid our note held by the First National Bank due today, with 30 days' interest at 6%. Face of note, \$350.
- J. M. Hastings withdraws from the business \$50 for personal use.
- We have Byron King's note of \$800 discounted at the bank and receive proceeds. Date of note April 15; time to run, 4 months; rate of discount, 6%.
- H. M. Turner paid for bill of goods sold him February 28, less $2\frac{1}{2}\%$, the bill amounting to \$322.50.
- H. F. Adams pays his note of \$125 which we hold against him, and which is due today, with 90 days' interest at 6% added.
- Loaned \$500 to H. G. Hill & Co., and took their note for 90 days as security.

12. Paid freight and cartage bills to date, amounting to \$17.85.
13. We had our 60-day note discounted at City National Bank and received credit for the proceeds. Face of note, \$200; rate of discount, 6%.
14. Bought, for investment, a house and lot on Fruit Street, paying \$2000 for it.
15. Paid bookkeeper's salary for month, \$60.
16. Bought mileage book for use by our traveling salesman for \$20.

EXERCISE 6

(Follow instructions for Exercise 4)

July, 191—

1. Balance, \$2708.52.
2. E. W. Gray sends us a check for \$240.10 to apply on his account.
3. Paid office rent for one month in advance, \$150.
4. Bought Fox typewriter of Joseph Pickett for \$100 cash.
5. J. E. Pender sends us a New York Draft for \$692.50 in full of his account.
6. We pay W. M. Collins for invoice of goods bought of him March 28, amounting to \$1027, less 3%.
7. Paid last month's bills for advertising in daily papers, \$87.25.
8. We hold a note against J. W. Arnold for \$485 due today, and which they pay by check.
9. We discounted our 60-day note at the Fourth National Bank and received credit for the net proceeds. Face of note, \$500; rate of discount, 6%.
10. We sold George E. Bryan an invoice of goods on the 1st inst., amounting to \$185. He has paid for the same today, less 2% allowed him for cash.
11. Paid telephone bill for March, \$4.16.
12. Paid freight bills amounting to \$72.85.
13. We paid our note for \$200 held by Smith & Jones, which is due today.
14. We hold a 60-day note against C. W. Conant for \$560, bearing interest at 6%, and due today. He pays the note and interest with a check.
15. F. B. Mason paid for the bill of goods amounting to \$750, which we sold him March 30, less 3%.
16. Paid clerks' wages to date, \$75.
17. Bought five dollars' worth of stamped envelopes.
18. We discounted H. F. Adams' note \$1320 at the First National Bank today. Period of discount, 42 days; rate of discount, 6%.

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count is at all active, the two balances will rarely agree as there will be checks outstanding which have not been presented to the bank for payment. It is then necessary to reconcile the two balances to see whether there has been any clerical error made in the check book or by the bank. The following form of reconciliation is suggested. It should be copied in the check book on the reverse side of the stub or on a separate slip of paper which can be preserved.

Reconciliation of Bank Statement, May 31, 19—

Balance per bank statement.....	\$491.84
Deduct checks outstanding:	
No. 525.....	\$1.53
No. 565.....	1.00
No. 616.....	17.50
No. 621.....	25.00
No. 623.....	5.20
	<u>50.23</u>
Balance per check book.....	\$441.61

The Numerical System of the American Bankers Association: The American Bankers Association recently adopted a numerical system which consisted of the assignment of a number to all banks and trust companies of the United States. The reserve cities are given prefix numbers from 1 to 49, inclusive, in the order of their population. Each bank in each reserve city is also

FORM 6. DEPOSIT SLIP

NATIONAL SHAWMUT BANK

BOSTON, MASS.

DEPOSITED BY

Hinds, Perry & Co.

BOSTON, *Dec. 12,* 19*14*

CHECKS AND CASH ITEMS ARE CREDITED ONLY SUBJECT TO PAYMENT. THIS BANK IN COLLECTING PAPER RECEIVED FROM ITS CUSTOMERS, WHETHER THE SAME BE PLACED TO THEIR CREDIT OR NOT, ACTS ONLY AS THEIR AGENT AND ASSUMES NO RESPONSIBILITY EXCEPT TO EXERCISE THE SAME DILIGENCE IT USES IN COLLECTING ITS OWN PAPER.

	DOLLARS	CENTS
BILLS (IN A STRAP).....	192	—
SPECIE.....	37	62
CHECK ON.....		
<i>53-169</i> BANK.....	21	40
<i>5-20</i> ".....	197	50
<i>56-172</i> ".....	4	90
<i>52-97</i> ".....	72	—
<i>10, m/o. Mchler, Mass.</i>	37	5
".....	529	17
".....		
".....		
".....		
".....		
".....		

given an individual number which on the checks is separated from the prefix number by a hyphen. The number appears on all checks on a line with the name of the bank. 1-264 indicates a New York City bank; 5-20, a Boston bank; 6-127, a Cleveland bank. The prefix numbers from 50 to 99, inclusive, are assigned to the States, the prefix number indicating the State, the sub-number, the individual bank. 53-19 indicates a Massachusetts bank outside of Boston; 56-287, an Ohio bank outside of Columbus, Cleveland or Cincinnati.

In making out a deposit ticket it has always been the custom to list checks by writing in the space to the left of the money column the name of the bank upon which the check is drawn, if on a bank in the same city, and the name of the city if drawn on a bank in another city. The adoption of the "numerical system" outlined above, however, makes it easier for the depositor and just as convenient for the bank to make up the deposit, writing in the space to the left the number of the bank which appears on the check to the right of the name of the bank.

The accompanying form illustrates a deposit slip made out in this way.

Filing Canceled Checks: There are three ways of filing canceled checks: (1) Filing the envelope with checks and other memoranda enclosed just as it came from the bank. (2) Filing the checks in numerical order, the envelope and other papers being destroyed. (3) Pasting the canceled checks on the stubs from which they were torn. The first way is probably the most satisfactory.

PROMISSORY NOTES

A note is a written promise to pay a certain sum of money at a definite time to the person, firm, or corporation named in the body of the instrument.

The person who gives the note is called the Drawer, or Maker; the one to whom it is given, the Payee.

Following is a form of a negotiable, interest-bearing note:

FORM 7. PROMISSORY NOTE

\$100 ⁰⁰	Northampton, Mass, April 4, 1915
Sixty days	after date I promise to pay
to the order of	Mrs. Frances Masters
One Hundred ^{no/100}	Dollars
Payable at	
Value received with interest at 6%	
No. 1	Due May 31 1915
Helen K. Hunt	

Form 202 Thorpe & Martin Co. Boston

DRAFTS

A draft is an instrument drawn by one person or firm upon another, requesting the payment of a certain sum of money to a third person named in the body of the instrument, either "at sight" or after a certain time. The parties are known respectively as the Drawer, the Drawee and the Payee.

A draft drawn "at sight" is payable upon presentation to the Drawee; if drawn a certain time "after sight" or "after date," the draft would be presented to the Drawee for his acceptance, which consists in the Drawee writing across the left end of the face of the instrument the word "Accepted," the date of acceptance and his signature.

The business relationship existing between the three parties to a draft is that the Drawer owes the Payee while the Drawee is indebted to the Drawer. In order to effect a settlement of the two claims by the payment of one sum of money, the Drawer would draw upon the Drawee (his debtor), making the draft payable to the Payee (his creditor).

The entries which each party to a draft would make, whether "sight" or "time," are as follows:

TIME DRAFT

The Drawer debits the Payee and credits the Drawee.

The Drawee debits the Drawer and credits Bills Payable.

The Payee debits Bills Receivable and credits the Drawer.

SIGHT DRAFT

The Drawer debits the Payee and credits the Drawee.

The Drawee debits the Drawer and credits Cash.

The Payee debits Cash and credits the Drawer.

The discussion of drafts so far applies largely to the historical draft. At the present time very few, if any, drafts, either "sight" or "time," are placed in circulation in which the Drawer, Drawee and Payee are three separate, private individuals or firms. As a modern commercial paper, the draft may be considered under three heads as regards the uses to which they are put.

1. As a means of collecting over-due accounts.
2. As a means of collecting in advance of delivery for goods shipped by freight.
3. As a means of remitting in the form of a Bank Draft when it is inadvisable to send one's personal check.

The draft indicated in the first instance is usually a sight draft. A is indebted to B for, let us say, \$100. B having failed to collect the amount due him, draws a draft upon A, naming his, B's, bank as payee, the draft being left at the bank for collection. The bank sends notice to A by messenger, if he resides in the same city, informing him that a draft drawn upon him by B is held by the bank for collection and asking him to call promptly and honor it. If the bank fails to collect, the draft is returned to B with notice of dishonor.

The effectiveness of this method lies in the fact that business men are very careful not to do anything that will impair their credit with a bank. The fact that a man dishonors a draft drawn upon him without giving good and sufficient reason for such dishonor has an unfavorable effect upon the Drawee's credit. Business men are aware of this fact only too well, and if a man has respect for his credit relationships with banks and individuals, he will in most cases honor a draft drawn upon him for a legitimate debt.

The following illustrates the form in which such a draft would be drawn:

FORM 8. SIGHT DRAFT

<u>Boston, Mass., June 20, 1915. No. 2</u>	
<u>At sight</u>	PAY TO THE
ORDER OF <u>First National Bank</u>	<u>\$ 250⁰⁰</u>
<u>Two Hundred Fifty</u> <small>no/100</small>	DOLLARS.
<small>SCHOOL CURRENCY</small>	
VALUE RECEIVED AND CHARGE THE ACCOUNT OF	
To <u>Thomas A. Murray</u> <u>296 Hudson St., Boston</u>	<u>Chas E Norris</u>

A draft with the Bill of Lading attached is used as a means of collecting in advance of delivery for goods shipped by freight. The shipper, who, let us assume, is a wholesale dealer in dry goods in Boston, receives an order for a bill of goods from a concern in Erie, Pennsylvania. The wholesale house has never sold to them before. They ask to have the goods shipped immediately. If their request is complied with, the wholesale house has no time in which to look up the financial standing of the Erie concern. The wholesaler may, therefore, choose to fill the order, shipping the goods immediately, and mailing the invoice to the purchaser with terms "Bill of Lading with Sight Draft attached," or "B/L with S/D attached."

The shipper then draws a draft upon the Erie concern, naming the Boston firm's bank as Payee. This draft with bill of lading attached is left at the bank to be put through for collection. The draft is forwarded by the Boston bank to an Erie bank. On the arrival of the goods the purchaser goes to the bank, pays the draft, and receives the bill of lading which he then presents to the railroad company as evidence of title to the goods.

A common method of remitting money when it is inadvisable to send one's personal check is by Bank Draft. A Bank Draft is a draft drawn by one bank or banker upon another bank or banker, and made payable to a third person. Bank Drafts may be bought at any commercial bank. If one has a "checking" account, the most convenient way is to draw a check payable to the order of New York, or Boston, or Chicago draft and present it to the cashier or to one of the tellers who will issue in exchange for it a draft on the city requested. If one does not have a checking account the draft may, of course, be paid for in currency. The better form is to have the draft made out to one's own order, afterwards endorsing it in full to the person or firm to whom it is to be sent.

EXERCISE 7.

QUESTIONS ON BANKING PRACTICE

1. State the essential characteristics of a national bank; trust company; savings bank; private bank.
2. What are the advantages to an individual of having a "checking" account in some bank?
3. What are some points for one to bear in mind in the selection of a bank in which to open a "checking" account?
4. Do banks ordinarily pay interest on a "checking" account?
5. How would you proceed to open a bank account?
6. Define deposit slip; bank book; check book.
7. Define endorsement; name and illustrate the two common forms of endorsement. Where should the endorsement appear?
8. Design a deposit slip and make up the following deposit for Hinds, Perry & Co., their bank is the State Street Trust Company, Boston, Mass. Date of deposit, December 12, 1914. Bills, \$192; specie, \$37.62; checks on Union Trust Company, Springfield, \$21.40; National Shawmut Bank, \$197.50; Third National Bank, Canton, Ohio, \$4.90; First National Bank, Portland, Me., \$72; money order drawn by Manchester, N. H., office, \$3.75. (See Form 6, page 18.)
9. Show how you would write \$287.34 in the body of a check, first, in figures; second, in words.
10. What details concerning the check are shown on the stub?
11. Is it necessary to preserve a copy of each deposit made? What two ways would you suggest of preserving such a copy?
12. Who loses in case of a forged check; a "raised" check?
13. How should checks be signed?
14. What should be the practice regarding erasures on checks?
15. What would you do in case you spoiled a check which you were writing?
16. In filling out the stub of check No. 712, you made an error of \$10 in subtracting, obtaining a balance of \$10 too much; the error was not discovered until you were proving your cash at the end of the day; you had written twenty checks in the meantime; how would you correct the error?
17. How would you write a check for 85 cents? Under what circumstances would you issue a check for less than one dollar?
18. Is an endorsement made with a rubber stamp sufficient?
19. A customer of the Smith-Carr Baking Co. gave one of the salesmen of the company a check for \$100 to apply on account; when the salesman returned from his trip on Saturday morning, he went to the office of the company, picked up the rubber stamp used for endorsing checks, endorsed the check with the rubber stamp, took it to the bank, cashed it, and left town. Who was liable? Why?
20. You receive a check in which your name has been mis-spelled and the wrong middle initial used; how would you endorse it for deposit?
21. How would you endorse checks which you mail to your bank for deposit in your account?
22. In case the amount in words and in figures differ, which would govern?
23. Will a bank cash a check which bears no date? Will a bank cash a post-dated check?
24. Are checks drawn with a lead pencil valid?
25. Are checks required to be written on blank checks furnished by the bank?
26. What are the general principles which govern banks in charging for collecting checks? What is the usual charge?
27. What would you do in case you lost a check before you had an opportunity to cash or deposit it?
28. What would you say about promptness in depositing or cashing checks? What is the danger in delaying?
29. In case you wish to draw out money for your own use, how would you write the check?
30. A commission house handled the products of consignors living in country districts to whom checks were sent monthly for the proceeds due them; a large number of the consignors were slow in depositing checks sent them, often holding them out for from six months to a year. To insure promptness, the commission house stamped all checks sent to their consignors, "This check is void if not deposited within 30 days." What was the legal effect of such notice?

31. Define certified check; certificate of deposit; bank draft.
32. Under what circumstances would you send money by bank draft? Explain in detail how you would procure a bank draft.
33. In what form do most banks now render statements to depositors? How often are such statements rendered?
34. What should the depositor do immediately upon receipt of the bank statement?
35. What do you understand by reconciling the bank statement with the check book?
36. Give form of bank reconciliation statement representing eight checks as outstanding, supplying your own figures.
37. Under what circumstances is it advisable to keep a permanent copy of the reconciliation? In what manner would you do so?
38. Name several different methods of filing canceled checks. In your opinion, what is the best method?
39. Does a canceled check answer all requirements of a receipt?
40. What is a voucher check?
41. Explain the purpose and effect of each of these phrases in the body of a check: "Pay to _____ or order." "Pay to _____ or bearer." "Pay to the order of _____."
42. As treasurer of the Century Club, you collect all money and sign all checks; what form of signature would you use?
43. Is a check dated on Sunday valid?
44. What is a bank "overdraft"? Will a bank make partial payment of a check if the depositor's credit is not sufficient to pay the full amount?
45. What is the effect of the death or bankruptcy of the drawer of a check?
46. Under what circumstances would you advise the use of a check protector? Name a manufacturer of such an appliance and state its cost.
47. What restrictions do the larger banking houses place upon small checking accounts?
48. Explain the general features of the numerical system for banks adopted by the American Bankers Association.
49. Name an important law relating to banking which was passed by Congress in 1914.
50. What is the liability of a stockholder in a national bank?

EXERCISE 8.

TEA ROOM EXERCISE

The Rose Tree Inn, Northampton, Mass., has been conducted as a tea room for several years. In addition to the patronage which it enjoys from the students of Smith College, it is a popular place among the ladies of Northampton for afternoon tea; a specialty is made of putting up lunches for picnics, automobile parties, etc., and catering is done for weddings, receptions, class banquets and clubs. The rooms are open to men and a number of business men take their lunches there.

The tea room has been conducted for the past four years by Mrs. Frances Masters as a means of meeting a part of the expenses of her daughter's college course. The daughter will graduate in June, and as Mrs. Masters desires to return to her former home, the tea room is for sale. You have had some experience in such work, and as you know of the excellent patronage which Mrs. Masters has built up, you have negotiated for its purchase.

An inventory is taken of the equipment and supplies which shows the following: 15 tables, valued at \$100; 50 chairs, \$150; kitchen range, \$65; gas stove, \$30; kitchen utensils, \$55; silverware, \$80; china and glassware, \$100; linen, \$70; provisions on hand, \$50; cash register, office desk and chair, safe, filing cabinets, etc., \$205. There are no outstanding bills except a balance due from the Class of 1911, Smith College, for their class banquet, \$40; Mary E. Birney, 110 Elm Street, owes an account of \$6.88, and Mrs. Nelson Pickett, 78 Franklin Street, an account of \$3.12; these bills are taken over by you.

The price agreed upon for the business, including a valuation of \$2345 placed upon the good will, is \$3300, of which \$2900 is to be paid in cash on the day the bill of sale is executed. Four notes for \$100 each are to be given for the remainder of the purchase price, running sixty days, four months, six months, and one year respectively, and bearing 5% interest. As you have only \$2400 in cash, you arrange with Charles N. Bassett to take a chattel mortgage for \$500 on your furniture and equipment, in order that you may make the cash payment agreed upon. The mortgage is payable on demand and bears 6% interest, payable semi-annually in advance. Mrs. Masters holds a five-year lease on the quarters occupied by the tea room which will not expire for two years, at a yearly rental of \$500, payable monthly in advance. The lease is assigned to you.

The kitchen and dining room help, consisting of a cook, kitchen girl, three waitresses and a cashier, will be retained and will be paid the following wages: cook, \$10 per week; kitchen girl, \$4; waitresses, \$5; cashier who works only from twelve to six, \$3.50. You will take personal charge of the business and will do the buying and will keep the accounts. You wish your books to show an accurate record of cash receipts and disbursements and you would like to be able to determine at least semi-annually what profit you have made. You have some knowledge of bookkeeping, but you call in an experienced bookkeeper to advise you about what books to keep and what accounts to open, and to make other suggestions about the office work. It is decided that the only books needed at present are a Journal, Cash Book and Ledger. As all bills will be paid monthly, and as supplies are not bought in large quantities, it is not necessary to keep a Purchases Book. As credit is given very rarely, the cash receipts as shown by the cash register and the waitresses' checks will, as a rule, represent the total daily business done.

You take charge of the business April 1, 1912, on which date the bill of sale is executed and the terms of the sale complied with. The books are also opened as of that date. Prepare the books which you will need according to the following directions:

Sew six sheets of Journal paper together, the outside sheet to be used as a cover; pages 1 to 3 are to be used as a Journal; Cash Book, pages 4 to 9; Consignments Book, pages 10 to 12; remainder of the book to be used for trial balances, business statements, inventories, etc. Index the book as above indicated on the front cover. For the Ledger, sew three sheets of Ledger paper together, using a sheet of Journal paper as a cover, and number the pages consecutively. Open the following accounts, allowing one-third of a page to each, with the exception of those otherwise indicated:

Cash.

Accounts Receivable. (Separate accounts with each.)

Dining-Room Furniture.

Kitchen Furniture and Equipment.

Silverware.

China and Glassware.

Linen.
 Office Equipment.
 Good Will.
 Notes Payable.
 Chattel Mortgage Payable.
 An Investment account with yourself.
 A Drawing account with yourself.
 Provisions.
 Wages.
 Candy Purchases.
 General Expense.
 Interest.
 Sales.
 Candy Sales.
 Catering.
 Consignors' Goods (one-half page).
 Cash Variations.
 Profit and Loss.

To save time in posting, to economize space in the Ledger, and to aid in the classification of the accounts, special money columns are provided in the Cash Book for certain accounts which are debited or credited frequently. The headings of the columns on the debit side of the Cash Book are Date, Folio, Account Credited, Explanation, Sales Cr., Sundry Credits; on the credit side, Date, Folio, Account Debited, Explanation, General Expense Dr., Sundry Debits; these headings should be lettered in neatly, and only for the month of April at this time. Cash should be proved daily. Posting should be done at least weekly, except from the special columns, the totals of which will be posted at the end of each month.

RULES FOR DEBITING AND CREDITING THE ACCOUNTS PECULIAR TO THIS EXERCISE

Dining-Room Furniture, Kitchen Furniture and Equipment, Silverware, China and Glassware, Linen, and Office Equipment are all debited with the cost of additional equipment purchased. Repairs and renewals should be charged to General Expense.

GOOD WILL

Debit:

With the cost of good will acquired.

Sometimes it is the policy of the management to write off good will periodically, by charging Profit and Loss account and crediting Good Will.

Good Will is an intangible asset which represents a valuation placed upon the patronage and reputation which a business enjoys, upon copyrights or trademarks, favorable business connections, advantageous location, unexpired lease on favorable terms, etc. While intangible and difficult to value, it is an asset which has an unquestioned legal standing and receives recognition whenever a business is bought or sold.

CHATTEL MORTGAGE PAYABLE

Debit:

With payments in full or on account of mortgages issued.

Credit:

With the face value of mortgages issued.

The balance of the account is a liability representing the amount of the mortgage remaining unpaid.

DRAWING ACCOUNT

Debit:

With all amounts withdrawn for personal use.

Credit:

With monthly salary and with money placed in the business temporarily.

The balance, if a credit, represents the amount remaining to be drawn against; if a debit, the amount of the overdraft.

PROVISIONS

Debit:

With the cost of all provisions purchased, including meats, vegetables, fruit, eggs, milk, cream, etc.

WAGES

Debit:

With the weekly wages of kitchen and dining-room help.

GENERAL EXPENSE

Debit:

With all expense items of a general nature, including insurance, manager's salary, office supplies, repairs and replacements, light, heat, ice, telephone, etc.

CATERING

Credit:

With income from catering.

This account is kept to show the catering done and should not be debited with expenses incurred in catering, such as express, extra waiters, etc. Such items should be charged to General Expense.

CONSIGNORS' GOODS

Credit:

With sales of consignors' goods.

Debit:

With the net proceeds remitted at the time of rendering an Account Sales.

At the time of closing the books an adjusting entry should be made, debiting Consignors' Goods and crediting the individual consignors with the amounts due them on sales made for which Account Sales have not been rendered.

The account will then show a credit balance equal to the commission earned by the consignee.

CASH VARIATIONS

Debit:

With cash "short."

The balance, if a credit, represents a profit; if a debit, the balance shows a loss.

Credit:

With cash "over."

APRIL TRANSACTIONS

April 1. Make an opening entry in the Journal, debiting all assets and crediting all liabilities, your investment account being credited with the excess of total assets over total liabilities, which amount will agree with the cash which you invested in the business. Write a concise explanation of the opening entry, which should be in the nature of an historical sketch, in which all details of the purchase are set forth.

Draw up a chattel mortgage on the blank form furnished you, make out the chattel mortgage note, and write the four notes given to Mrs. Masters as per the terms of purchase. The cash payment was made to Mrs. Masters in the form of a bank draft purchased at the First National Bank. Make no entry for the cash paid Mrs. Masters. Why?

Provide the cashier with \$10 in change which you may credit to your Drawing account; sales for the day, \$47.50; pay interest for six months on chattel mortgage held by Mr. Bassett.

2d. Sales \$40.35.

3d. Sales \$40.80.

4th. Sales \$39.15; open an account in the name of Rose Tree Inn in the First National Bank, depositing \$150 in currency. Checks are to be signed "Rose Tree Inn, By ————." Deposits should be made twice each week, money waiting to be deposited being kept in the safe. (In actual business, cash should be deposited daily or at least every other day.) A sufficient amount should be withheld at the time of making the deposit to provide change. All payments should be made by check except those which must for the sake of convenience be made in currency.

5th. Sales \$44.73; pay Barrett & O'Brien, agents for the owner of the property, rent for April; pay Oliver B. Bradley by check \$5 for his assistance in opening a new set of books.

6th. Sales \$47.85; in proving the cash with the waitresses' checks, the cashier found that she was "short" 30 cents; pay wages of the help for the week; you withdraw \$20.

8th. Sales \$28.20; pay bill of Bridgeman & Lyman for blank books and office supplies, \$4.65.

9th. Sales \$40.81.

10th. Deposit \$125; sales \$47.65.

11th. Sales \$43.00.

12th. Sales \$31.45.

13th. Deposit all but \$10. (Deposit was made in the morning and did not include any cash received on this date.) Sales \$48.75; pay wages for the week; withdraw for personal use \$20.

15th. Sales \$31.81.

16th. Sales \$32.63; cash "over" 15¢.

17th. Deposit \$65; sales \$37.50; Mary E. Birney pays her account in full by check.

18th. Sales \$47.90; pay for a half-page advertisement in the Smith College Monthly by check, \$5.

19th. Sales \$47.15; receive a check for \$20 from June E. Stone, Rochester, N. Y., treasurer of the class of 1911, to apply on banquet account.

20th. Deposit all but \$25; (see note under the 13th); sales \$39.95; pay wages for week; withdraw for personal use, \$18.

22d. Sales \$23.60.

23d. Sales \$36.95; cash "short" \$1.

24th. Deposit all but \$10; sales \$42.60; cater for a wedding, the bill for \$40 to be sent to Mr. J. H. Byers; pay extra waiters who were engaged for the occasion, \$6; expressman, \$2.

25th. Sales \$37.55; send bill to Mr. Byers, 46 State Street.

26th. Sales \$46.57.

27th. Deposit \$100; sales \$29; pay wages for week; withdraw \$20.

29th. Sales \$39.85.

30th. Deposit \$35.37; sales \$46.80; receive bank statement with canceled checks enclosed; the bank statement should be reconciled with the check book; you find from the statement that the bank charged you 10¢ for collecting the check deposited on the 20th.

Previous to closing the Cash Book for April, the following April bills are received and paid:

Public Market Co., meats and vegetables, \$242.87; Clapp & Clapp, meats and vegetables, \$181.19; John A. Ross & Co., groceries, \$98.65; R. J. McQuestion, milk and cream, \$65.80; City Ice Co., \$6; Northampton Electric Lighting Co., 97¢; Northampton Gas Co., \$6.15; W. H. Riley

& Sons, repairing kitchen range and fixing plumbing, \$4.60; National Biscuit Co., \$14.80; Ames Butter & Eggs Co., \$78.33; Northampton Empire Laundry, \$15; New England Telephone & Telegraph Co., \$3; withdraw \$15; buy postage stamps, \$2.

You have decided to allow yourself a salary of \$100 per month as manager of the tea room, against which you will draw money as needed to meet personal expenses. Make an entry in the Journal, crediting your Drawing account with your April salary. What account should be debited?

Close the Cash Book; do all posting to date; take a trial balance.

MAY TRANSACTIONS

Letter in the headings for the May Cash Book. From your experience in keeping the books the past month, you decide to add a third money column to the credit side of the Cash Book, heading it "Provisions Dr." (Space for dollars should be one-half inch wide; cents, one-quarter.)

Although you will have no use for it until later in the month, rule a third money column on the debit side of the Cash Book, heading it "Candy Sales Cr." Transfer the cash balance to the new page under date of May 1, entering it in the "Sundry Credits" column; rule a red line beneath so that it will not be added with cash receipts for this month and thus posted twice.

- 1st. Sales \$52.25.
- 2d. Deposit \$80; sales \$47.50.
- 3d. Sales \$27.78.
- 4th. Deposit \$60; sales \$52.51; pay wages for week.
- 6th. Sales \$32.15.
- 7th. Sales \$42.50.
- 8th. Deposit all but \$10; sales \$37.85; pay rent for the month.
- 9th. Sales \$39.25; cash "over" 50¢.
- 10th. Sales \$52.50. Place \$600 insurance on stock and equipment through the office of Oliver Walker & Son, paying premium for three years by check, \$5.
- 11th. Deposit all cash except \$20; sales \$36.65; pay wages for the week; withdraw \$15.
- 13th. Sales \$28.20.
- 14th. Sales \$39.40.
- 15th. Deposit all but \$10; sales \$35.56.

As you have numerous calls for confectionery, you have decided to add a line of candies and have given the United Candy Co., Boston, an order for an assorted stock. You have also arranged with Page & Shaw, Boston, to sell their candies on commission; they are to ship you on consignment each week a lot of their chocolates and bonbons. You are to receive a commission of 20% on what you sell with the understanding that you are to return to them at the end of each week what you have been unable to sell, so that a fresh stock may be kept on hand all the time; they are to pay the express both ways.

- 16th. Sales \$42.47.

17th. Sales \$39.05; cater for a reception given by Mrs. H. C. Day, 10 Franklin Street; a bill for \$35 will be rendered June 1; pay extra help engaged for the occasion, \$6; pay expressman \$2; send Mrs. Nelson Pickett, 78 Franklin Street, a statement of account.

The candy ordered from the United Candy Co. arrived today with a bill for \$31, which you pay; you buy a cabinet from C. N. Fitts & Co. in which to display the candies and send them a check for \$30 in payment for the same. As the cabinet is placed in the dining room, debit Dining Room Furniture.

Sales of your own candy will be credited to Candy Sales and entered in the special column provided for such sales. Sales of Page & Shaw candies will be credited to the Consignors' Goods account, the amount of each sale being entered in the "Sundry Credits" column; should these sales prove to be large, however, a special column should be provided for them.

18th. Deposit all cash except \$10; sales \$59.98; candy sales \$7.20; Lucy Laughlin gave a luncheon for eleven of her college friends, the bill amounting to \$12; she has arranged to pay the bill June 1; pay wages for the week; withdraw \$25.

20th. Sales \$32.27; candy sales \$4.25; receive on consignment 20 pounds Page & Shaw candies in pound and half-pound boxes, to be sold at \$1 per pound.

The Consignments Book is a book in which a record of each consignment is kept. When a consignment is received, a memorandum is made in this book of the date received, amount received, and the selling price, short extended. No other entry is made at this time. When the consignment has been sold out, or when an Account Sales is rendered, the sales are itemized and the amounts extended into the second money column, followed by any charges incurred and, by the net proceeds. The two money columns should then balance and should be single and double ruled.

A **consignor** is one who sends goods to another to be sold on commission; in this case, Page & Shaw are the consignors. A **consignee** is one to whom goods are sent to be sold on commission. The title to the goods remains in the consignor.

- 21st. Sales, \$32.25; consignors' goods, \$6.50; candy, \$3.75.
- 22d. Make usual deposit; sales, \$33.50; consignors' goods, \$11; candy, \$8.30.
- 23d. Sales, \$27.58; consignors' goods, \$5.50; candy, \$6.70.
- 24th. Sales, \$30.87; candy, 85¢; consignors' goods, \$3; cash "short" 60¢.
- 25th. Deposit all but \$20; sales, \$35.70; candy, \$5.60; consignors' goods, \$6; pay week's wages; withdraw \$10.

Mrs. Herbert Bigelow has left with you on consignment the following pieces of hand-painted china: one dozen cups and saucers marked at \$2 each; one vase, yellow roses, \$8; one vase, pink roses, \$5; one bonbon dish, \$2.50; one water pitcher, \$12; one chocolate set, seven pieces, \$20; one tea tile, \$2. Make memorandum in the Consignments Book. You are to receive a commission of 20% on all sales. Hereafter, sales of consignors' goods will be designated by the initials of the consignors. It is not necessary to open a separate account in the Ledger for Mrs. Bigelow's consignment.

27th. Render an Account Sales to Page & Shaw and send them a check for last week's sales, less our commission; return unsold candy by express.

An Account Sales is a statement rendered by the consignee to the consignor after all the goods have been sold, showing the sales, charges, commission and net proceeds. An Account Sales may be rendered when the goods are but partly sold.

Complete the record in the Consignments Book according to instructions given above. For the entry to be made at the time of rendering an Account Sales, see rules for debiting and crediting Consignors' Goods on page 25.

Received a second consignment of 20 pounds of candy; sales, \$32.80; candy, \$1.50; consignors' goods (P. & S.), \$3; consignors' goods (B.), \$12.

28th. Sales, \$41.90; candy, \$4.95; consignors' goods (P. & S.), \$4; consignors' goods (B.), \$8; receive a check from J. H. Byers in full of account.

29th. Make usual deposit; sales, \$35.95; candy, \$3.60; consignors' goods (P. & S.), \$5.50; cash "over" 25¢.

30th. Tea room closed.

31st. Sales, \$31.56; candy, \$5.40; consignors' goods (P. & S.), \$3; pay sixty-day note dated April 1, due today, with interest; deposit \$60.91; pay wages for week; withdraw \$20.

Render an Account Sales to Page & Shaw, remitting check for the net proceeds of last week's sales; receive a consignment from them of 25 pounds; write Mrs. Bigelow, informing her of the sales you have made and enclose a check for the amount due her.

Pay the following May bills: Clapp & Clapp, \$205.71; John A. Ross & Co., \$92.59; R. J. McQuestion, \$75; Northampton Empire Laundry, \$15; New England Telephone & Telegraph Co., \$3; Northampton Electric Lighting Co., 80¢; United Candy Co., \$16.50; Ames Butter & Eggs Co., \$53.55; Public Market Co., \$188.72; City Ice Co., \$3; Northampton Gas Co., \$7.52; J. E. Lambie & Co., table linen, to replace linen worn out, \$25; Northampton Cutlery Co., replating 4 dozen knives and forks, \$10; *Daily Hampshire Gazette*, advertising, \$5; credit yourself for your month's salary.

Close Cash Book; do all posting to date; take a trial balance; after which the following are required:

(a) Profit and Loss Statement, April 1 to May 31. An inventory is taken showing provisions and supplies in the stock room, \$22.50; candy on hand, \$15. (See form to be followed on page 29.)

(b) Balance Sheet.

(c) Make closing entries and post them; rule Ledger accounts.

(d) Prepare bank statement received June 1. (The envelope system is used by the First National Bank.) The following checks were not returned: C. N. Fitts & Co., on the 20th; Page & Shaw, the 27th; Mrs. Masters, the 31st.

(e) Prepare Bank Reconciliation Statement.

(f) The net profit for the past two months is equivalent to what annual rate of income on your investment?

(g) Design an auxiliary book which will show at a glance the comparative total sales by days, months and years.

(h) Would it be advisable in a business of this kind to have a Pay Roll Book? Design such a book.

PROFIT AND LOSS STATEMENT. April 1 — June 1, 1912

Sales.....	****		
Catering.....	****	****	
Deduct:			
Cost of Provisions Used:			
Provisions Purchases.....	****		
Less:			
Inventory June 5/12.....	****	****	
Gross Profit from Sales.....			****
Candy Sales.....		****	
Deduct:			
Cost of Candy Sold:			
Candy Purchases.....	****		
Less:			
Inventory.....	****	****	
Gross Profit on Candy Sales.....			****
Commissions Earned.....			****
Total Profit.....			****
Deduct:			
Rent.....		****	
Laundry.....		****	
Fuel and Light.....		****	
Telephone.....		****	
Insurance.....		****	
Miscellaneous.....		****	
Wages.....		****	
Interest.....		****	
Cash Variations.....		****	****
Net Profit.....			****

EXERCISE 9

QUESTIONS ON THE TEA ROOM SET

1. What advantages result from the use of a Cash Book with special columns?
2. Name the special columns provided in the Tea Room Set.
3. Give a general rule to be followed in the framing of an opening entry for a new set of double-entry books.
4. What harm results from charging a repair item, of say \$23, to an asset account?
5. Define a chattel mortgage; give rules for debiting and crediting a Chattel Mortgage Payable account. What does the balance show? In what respects does a chattel mortgage note differ from an ordinary note?
6. Give rules for debiting and crediting the following accounts and state what the balance represents: Dining Room Furniture, Cash Variations, Consignors' Goods.

7. State how you found the profit on Sales. Were you able to determine the exact profit on Sales? Explain.
8. Name the accounts in the Rose Tree Inn business which showed assets.
9. Why are closing entries made? What accounts are closed by closing entries? Give the last closing entry which you made. What was the purpose of this entry?
10. To what account would you charge collection charges on a check? When would you know that your bank had charged you for collecting a check?
11. What advantages are claimed for the form of Journal ruling illustrated in this set?
12. Define Good Will. Give rules applying to this account. What does the balance represent?
13. Define Account Sales; consignee; consignor; Consignments Book.
14. What is the function of the Drawing account? For what is it debited and credited? What did you do with the balance?
15. What entry would you make for stamps received from a customer in settlement of his account?
16. How does a trial balance taken before a Ledger is closed differ from one taken after closing?
17. Give rule for finding rate of profit on sales. How should the rate be expressed?

EXERCISE 10

PRIVATE ACCOUNTING EXERCISE

You have been engaged as private secretary to James Howell, president of Franklin College, Springfield, Ill. Your duties will consist mainly of handling his correspondence and other stenographic work, opening his mail, interviewing visitors, making appointments, and answering the telephone. In talking with President Howell about the position, he tells you that his household and private accounts cause him a great deal of annoyance, and that he would like to have you arrange them on a systematic basis and take entire charge of keeping his books. He speaks of this because he has been informed that at the school which you attended you received instruction in bookkeeping as well as in shorthand and typewriting.

President Howell tells you that heretofore he has attempted to keep his own accounts, but as he does not know anything about bookkeeping and has no interest in such work, his accounts have been much neglected and he knows very little about how he stands financially. While such work is distasteful to him, he appreciates the importance of having an accurate record of cash receipts and disbursements and of all income and expenses. He is at present two or three months behind in his accounts, but he does not wish you to take the time necessary to bring the work up to date. Your engagement with him begins September 1, but he suggests that you do nothing about the books until October 1. This will give you a month to become accustomed to your more important secretarial duties, and will also give you time to look over the books that he has kept, become familiar with the nature of his business transactions, and work out some plan of keeping his accounts in a simple, but businesslike manner. You can then purchase the books and supplies which you will need, and make a fresh start October 1.

While President Howell is willing to leave to your judgment the system of bookkeeping to be used and the books to be kept, he says that you will have to consider this work as subordinate to your other duties and that he does not think you should plan to spend more than three or four hours a week on an average on his books, and so he hopes you see the necessity of installing a simple system which will require as little work as possible.

In discussing with President Howell on two or three occasions the nature and extent of his financial transactions, you learn a number of things that are of assistance to you in making plans for keeping his accounts. He tells you that in addition to his salary of \$5000 which he receives in monthly installments, he has money invested in some stocks and bonds which yield him a steady income, that he holds a mortgage on a piece of real estate in Springfield, and that he owns two pieces of income-producing property; one, a three-story business block located at 426 Main Street, the first floor being rented as store rooms and the second and third floors consisting of offices which are rented most of the time; there is a mortgage on this property; the other is a two-family house located at 744 Harrison Avenue. While he sometimes accepts the services of real estate agents in securing tenants, he collects all rents and pays all maintenance charges.

Two of his books have been published by Maynard, Merrill & Co., and he receives royalties on them once a year; he writes articles for magazines at times, and lectures occasionally, for which work he is well paid; he has some money in a local savings bank which pays 4%; he owns his own home and some vacant lots; he holds a 20-payment life insurance policy in the Northwestern Mutual Life Insurance Co. for \$5000 on which he has made ten payments, and a 20-year endowment policy for \$5000 in the New York Life Insurance Co., on which six payments have been made.

President Howell tells you that his expenses are heavy and that he desires them carefully classified so that he may in the future obtain comparative statistics covering a period of years, which will be of interest as showing the trend of the cost of living and maintaining a residence. These consist in the main of household expenses, including wages of servants, fuel, lighting, and provisions; maintenance of residence, including taxes, insurance, water rent, repairs, etc.; household equipment including additions and replacements; family clothing; expenses of a daughter, Mary, who is in Vassar; expense of maintaining and running an automobile, including salary of chauffeur; library expenses, including purchase of new books, binding, etc.; contributions to church and charity, dues in clubs, lodges, and societies; expenses connected with the two rental properties and taxes and assessments on the vacant lots.

Briefly stated, President Howell would like to have his books show what he is worth, with his assets properly classified; the exact profit or loss resulting from the occasional sale of some

security or of a parcel of real estate; the annual income, gross and net, from each piece of rental property; his income from all other sources; the expense of operating his automobile; and a suitable classification made of all his other current expenses.

President Howell has his account in the Federal Trust Company. Charge accounts are maintained at all the leading grocers' and markets and monthly settlements are made by check. Mrs. Howell and the daughter each receives a monthly allowance which is expected to cover personal expenses. Each has her own account at the dressmaker's and the dry goods stores, and bills are sent direct to them. Mrs. Howell has a small income of her own from some bonds which she owns, and has a savings account in the Franklin Savings Bank, but you will have nothing to do with her accounts.

With the information which you have obtained, you are ready to make definite plans as to the system of bookkeeping to be employed, the books to be kept, the Ledger accounts to be opened, etc. You decide without any hesitancy that the books should be kept by double entry, as only by this method can you supply President Howell with the information which he desires. Furthermore, you realize that this method is in reality more simple and requires less time than if the books were kept in a less scientific manner. You see no necessity for any books other than a Journal, Cash Book and Ledger. You purchase these books at a stationery store, getting them all of the same size, $8\frac{1}{2}$ by 14. You select books with good binding and with a good quality of paper, and you make sure that the money columns have unit rulings. As the Journal will be the least used of all the books, you select one of the smallest capacity that you can get, containing one hundred pages; the Cash Book and Ledger each contains two hundred pages. You procure a new Check Book at the bank.

The following is a list of the Ledger accounts that you expect to keep; it may be, however, that after the books are opened you will decide to make some changes in the list of accounts or in the titles that you have given them.

Ledger Accounts:

- Cash.
- Savings Account — Franklin Savings Bank.
- Securities Owned.
- Mortgages Receivable.
- Life Insurance Premiums — Northwestern.
- Life Insurance Premiums — New York Life.
- 477 College Avenue (Residence).
- 426 Main Street (Brick office block).
- 744 Harrison Avenue (Two-family apartment).
- Garage — 477 College Avenue.
- Magnolia Terrace Lots (three lots owned).
- Furniture and Furnishings.
- China, Silverware and Glassware.
- Library.
- Automobile.
- Mortgages Payable.
- James Howell, Capital Account.
- James Howell, Drawing Account.
- Mrs. Howell, Allowance Account.
- Mary Howell, Allowance Account.
- Income from Salary.
- Income from Royalties.
- Income from Securities Owned.
- Miscellaneous Income.
- Maintenance and Income — 426 Main Street (1 page).
- Maintenance and Income — 744 Harrison Avenue.
- Interest on Mortgages Receivable.
- Interest on Bank Balances.
- Groceries and Provisions.

Maintenance of Residence (1 page).
 Household Expenses (1 page).
 Clothing.
 Church, Charity and Dues.
 Secretarial Expense.
 Automobile Expense.
 Income and Expense.

You explain to President Howell that it will be necessary to prepare a complete inventory of all his assets in order that you may bring them on the books by means of an opening entry; this entry would also include any liabilities in the form of mortgages or notes; it is not necessary to bring on the books any current bills which may be due but have not yet been paid.

The statement of assets and liabilities which President Howell submits to you in accordance with your request is as follows:

Cash (in Federal Trust Co.).....	\$912.63
Savings Account — Franklin Savings Bank.....	768.57
Securities Owned.....	?
Mortgage Receivable.....	2,000.00
Life Insurance Premiums — Northwestern.....	1,384.20
Life Insurance Premiums — New York Life.....	1,498.76
477 College Avenue.....	10,000.00
426 Main Street.....	28,612.00
744 Harrison Avenue.....	7,500.00
Garage.....	2,147.65
Magnolia Terrace Lots.....	3,690.28
Furniture and Furnishings.....	5,000.00
China, Silverware and Glassware.....	500.00
Library.....	2,000.00
Automobile.....	2,250.00
Mortgage Payable.....	15,000.00

Following are comments on certain items in the above statement explaining among other things the basis for arriving at their value.

SCHEDULE OF SECURITIES OWNED

20 shares American Telephone and Telegraph Co. stock which cost $128\frac{1}{2}$ and pays a quarterly dividend of \$2 per share on the 15th day of January, April, July and October.

10 shares U. S. Steel, Common, which cost $43\frac{3}{4}$. Dividend of 4% payable quarterly on last day of March, June, September and December.

10 shares Great Northern Railway Co. which cost 126 and pays a dividend of 7% quarterly on first day of February, May, August and November.

50 shares La Verde Copper Co. stock which cost \$7.50 per share, but which has never paid a dividend.

\$2500 in N. Y., N. H. & H. convertible 6's, 1941, interest payable April and October.

\$4000 in City of Springfield 4's, 1920, interest payable June and December.

The mortgage receivable is a mortgage on the property of W. T. Morgan for \$2000, bearing 6% interest, payable semi-annually. The mortgage comes due December 1.

The life insurance policies show the amount paid in on each policy to date. Premiums on each are paid annually, the Northwestern being payable July 10, and the New York Life, November 3.

477 College Avenue is shown at assessed value; 426 Main Street and 744 Harrison Avenue, at original cost plus improvements. The garage, which has only been built about three months, shows cost of construction. The Magnolia Terrace lots show original cost plus approximate carrying charges to date.

It required a great deal of President Howell's time in looking through a mass of old invoices and papers which had not been filed away with any care, to obtain the figures needed for this statement. He thinks that it would involve entirely too much additional work to prepare an inventory

of his furniture and furnishings, china, glassware, silverware and library, and so it was decided to list these assets at their insured value. This is doubtless much below their cost or replacement value.

The automobile was bought fully equipped in the early spring and is shown at cost.

The Federal Trust Company holds a mortgage of \$15,000 on the business block, 426 Main Street, payable on demand, and bearing 5% interest, payable semi-annually, in advance, May 1 and November 1.

Make the opening entry on page 1 of the Journal, debiting all assets and crediting the liability (Mortgage Payable), and crediting James Howell, Capital Account, for the excess of total assets over liabilities, this amount equaling his net worth. This entry is made October 1, 191— and should be preceded by a suitable explanation. As the entry consists of equal debits and credits when it is posted to the Ledger, the Ledger will be in balance, and the books will have been opened according to the double-entry system.

Open accounts in the Ledger with the list of Ledger accounts on page 32, allowing one-third of a page to each. Observe the manner in which the accounts are classified: the assets appear first, followed by liabilities, capital, drawing, and allowance accounts, and, lastly, the income and expense accounts. This order is the one generally followed.

Enter the amount of cash in bank as a balance on the debit side of the Cash Book. Write "Cash Receipts" as the heading of the debit side of the Cash Book, and "Cash Disbursements" as the heading of the credit side.

The Federal Trust Company expects depositors to maintain a daily average balance of \$200. Interest at 2% is paid on daily balances if kept above that amount, and you will be expected to see that the required reserve is maintained. You will make prompt deposits of all checks and currency received, and will make out all checks, President Howell's signature being obtained in advance to a number of blank checks.

RULES FOR DEBITING AND CREDITING THE ACCOUNTS PECULIAR TO THIS EXERCISE

SAVINGS ACCOUNT

Debit:

When the account is opened with the amount deposited, with all subsequent deposits, and with interest accumulations.

Credit:

With withdrawals.

The balance represents the amount in bank and is an asset. This balance should at all times agree with the balance shown by the Pass Book.

SECURITIES OWNED

Debit:

With cost of stocks and with par value of bonds purchased. If bonds are bought below par, credit Bond Discount for the difference between par and purchase price; if bought above par, debit Bond Premium for the difference.

Credit:

With cost of stocks and with par value of bonds sold. (The difference between cost and selling price is charged or credited either to Profit and Loss, Miscellaneous Income, or Margin on Securities Sold.)

The balance is an asset and represents the cost of stocks and par value of bonds on hand.

(In case a great many different securities are owned or extensive trading is done in certain stocks it would probably be advisable to open a separate account with each security.)

MORTGAGES RECEIVABLE

Debit:

With the face value of mortgages received.

Credit:

With payments, either in whole or in part, of mortgages held.

The balance represents the amount due us on mortgages and is an asset.

LIFE INSURANCE PREMIUMS: (Separate account with each policy.)*Debit:*

With annual or semi-annual premiums as paid.

Credit:

With dividends declared by a mutual company; in case a policy having a cash surrender value is dropped, with the amount received from the company in settlement; in case of endowment policies, with face value of policy received in cash when settlement is made at maturity.

The balance represents the cost of insurance to date on a policy not yet matured, and would be an asset; on a policy discontinued, the balance after settlement would show a loss; on an endowment policy paid at maturity, there would be a credit balance equal to the interest earnings of the policy.

MAGNOLIA TERRACE LOTS*Debit:*

With cost of land purchased; with expenses incurred in passing title; with cost of improvements including construction of sidewalks, sewers, water and gas connections, grading, etc.; with all carrying charges, such as taxes, assessments, etc., until the land is developed and begins to yield an income.

Credit:

With amount realized from sale of land.

The balance represents the profit realized if the credit side is the larger; otherwise, the loss. (If only a part of the land is sold, as, for example, one lot out of several carried in one account, the account should be credited with the cost of land sold, the difference between cost and selling price being debited or credited to a Profit and Loss account, as the case may be. The balance of the account would then show cost of land owned and would be an asset.)

FURNITURE AND FURNISHINGS*Debit:*

With cost, estimated value, or assessed value, of furniture and furnishings purchased, including carpets, rugs, tapestries, draperies, pictures, statuary, lamps, bed and table linen, kitchen utensils, and everything not provided for in separate accounts.

Credit:

With sales, if any.

The balance of the account is an asset.

CHINA, SILVERWARE AND GLASSWARE

The same rules should be followed here as are given under Furniture and Furnishings.

LIBRARY*Debit:*

With cost or estimated value of all books, manuscripts, prints, maps, etc., owned, and with all subsequent purchases made.

There would be in all probability no credits to this account.
The balance represents the value of the library and is an asset.

AUTOMOBILE

Debit:

With purchase price of automobile, with additional equipment bought, and with freight and delivery charges. (All expenses of maintaining and running are charged to the Automobile Expense account.)

Credit:

With depreciation reckoned periodically on the purchase price.

The balance, which is an asset, represents the estimated present value.

(While this does not follow the correct method of handling depreciation in mercantile or manufacturing accounts, it seems best here for the reason that it does not appear advisable to set up an account with Reserve for Depreciation.)

MORTGAGES PAYABLE

Debit:

With payments either in full or on account of mortgages outstanding.

Credit:

With face value of mortgage issued.

The balance is a liability and represents the amount due on mortgages.

JAMES HOWELL, CAPITAL ACCOUNT

Debit:

With any transfer of property to other persons as by gift or bequest; with any shrinkage in assets which arises after accounts are opened; with net loss if the Profit and Loss statement shows a loss.

Credit:

With the excess of assets over liabilities as per inventory at the time the books are opened, this amount representing his net worth; with any increment of capital; with the net income as shown by the Profit and Loss statement.

The balance represents the net worth.

JAMES HOWELL, DRAWING ACCOUNT

Debit:

With money drawn with which to meet current expenses.

It is not contemplated that there will be any credits to the account.

The balance is closed into the Profit and Loss account.

MRS. HOWELL, ALLOWANCE ACCOUNT MARY HOWELL, ALLOWANCE ACCOUNT

Debit:

With monthly allowances as paid.

It is not expected that there will be any credits to this account.

The balance is closed into the Profit and Loss account.

INCOME FROM SALARY INCOME FROM ROYALTIES INCOME FROM SECURITIES OWNED MISCELLANEOUS INCOME

There would be no debits to these accounts.

Credit:

With income received from sources designated by the titles of the accounts.

The balance, representing a profit, would be closed into the Profit and Loss account.

MAINTENANCE AND INCOME — 426 MAIN STREET
MAINTENANCE AND INCOME — 744 HARRISON AVENUE

Debit:

With repairs, up-keep of grounds, painting, janitor's service, taxes, water rents, insurance, real estate broker's commission for securing tenants, coal, interest on mortgages, etc.

Credit:

With rents received from tenants.

The balance of the account after adjustments have been made of annual charges paid in advance, and rents accrued but not due, represents the net income or net loss from the property.

GROCERIES AND PROVISIONS

Debit:

With cost of all groceries, meats, vegetables, flour, milk, cream, fruit, butter, eggs, etc., purchased for keeping up the table.

No credits.

The balance represents the total cost of these items for the period.

MAINTENANCE OF RESIDENCE

Debit:

With repairs, up-keep of grounds, painting, taxes, insurance, water rent and all expenses which result directly from the ownership of one's own home.

There are not likely to be any credits to this account.

The balance, representing the total cost of maintaining residence for the period, is closed into the Profit and Loss account.

HOUSEHOLD EXPENSES

Debit:

Such expenses as would apply to rented property instead of to property owned, should be charged to Household Expenses account. These would include lighting, heating, janitor service, servants, telephone, ice, taxes on personal property, insurance on personal property.

See Maintenance of Residence above.

CLOTHING

Debit:

With cost of all clothing purchased by any of the family and not paid for out of their regular allowance or out of the money which President Howell draws for his personal use.

No credits.

The balance represents the total cost of clothing purchased and charged on bills that are paid out of the current funds, but would not show the entire clothing expense. (If it were not customary to give an allowance to each member of the family, the Clothing account should be debited with the cost of clothing purchased and with dressmaking and tailoring bills incurred by all members of the family.)

CHURCH, CHARITY, AND DUES

Debit:

With church contributions, including pew rent, subscriptions to home and foreign missions, and incidental church assessments; with gifts to charity; with dues in lodges, clubs and societies.

No credits.

The balance represents the total expenses of this class and is closed into the Profit and Loss account.

SECRETARIAL EXPENSES

Debit:

With salary of secretary, and with supplies purchased for secretarial work, such as paper, pens, pencils, ink, typewriter ribbons, typewriter repairs, carbon paper, manuscript covers, paper clips, erasers, account books, etc.

No Credits.

The balance represents the total secretarial expense for the period and is closed into the Profit and Loss account.

AUTOMOBILE EXPENSE

Debit:

With cost of gasoline, oil, tires, carbide, automobile blue books, State license, insurance, repairs, garage bills while touring, chauffeur's salary, depreciation, and all other expenses incident to the ownership of an automobile.

OCTOBER TRANSACTIONS

1st. Rents for September received from tenants of 426 Main Street, \$190; salary check received.

2d. Received rent for September from one of the tenants of 744 Harrison Avenue, \$37.50; received bank statement for September showing interest on daily balances credited, \$1.92; the janitors and servants are paid weekly; the secretary and chauffeur, monthly. Get check cashed at the bank for an amount sufficient to make the following payments: janitor at residence, \$15; janitor at 426 Main Street, \$15; servants, \$10; chauffeur, \$85; salary of secretary, \$75; Mrs. Howell's allowance for month, \$75; President Howell, \$50; send check to Mary for her allowance for month, \$60.

3d. Pay the following September bills: City Gas Co., \$4.81; Edison Lighting Co., \$3.50; Bell Telephone Co., \$3; John T. Connor Co., groceries, \$22.65; Manhattan Market, meats, vegetables and fruits, \$61.27; H. P. Hood & Sons, milk and cream, \$8.30; Springfield Ice Co., \$2.75; Chase Coal Co., year's supply of coal for residence, 14 T. at \$7.50; 426 Main Street, 20 T. at \$7.50.

4th. Collected rents from remainder of tenants of 426 Main Street, \$330; rent 744 Harrison Avenue, \$35.

6th. Pay Derby Desk Co. for typewriter desk and chair, \$22; H. C. Poulson Co. for secretary's supplies, \$13.20.

9th. Pay wages of janitors and servants for week.

14th. Springfield's tax rate for the year is \$15.20 per thousand. Pay the taxes due tomorrow on residence including garage (assessed value of garage, \$1750); 426 Main Street (\$23,750); 744 Harrison Avenue (\$5200); Magnolia Terrace lots (\$2700); personal property tax, \$112.

15th. Received dividend on American Telephone stock; received interest on New Haven bonds.

16th. Pay wages for week.

20th. Received check from *Educational Review* for article which appeared in the August number, \$50.

23d. Pay wages for week.

24th. Contribute \$50 to the Springfield Hospital.

26th. President Howell draws \$20.

28th. Pay dues for the year in the Union Club, \$25.

30th. Pay wages for week.

Close the Cash Book, post all entries to date, and take a trial balance. In posting, write explanations for all important items in the explanation space in the Ledger. This makes the Ledger more valuable for reference and aids in the analysis of the accounts.

NOVEMBER TRANSACTIONS

1st. Received salary check; rents from 426 Main Street, \$125; dividend on Great Northern stock; pay interest on mortgage held by the Federal Trust Company; salary of secretary for October, \$75; chauffeur, \$85.

2d. Received rents from 426 Main Street, \$185; rent from 744 Harrison Avenue, \$72.50; received bank statement for October showing interest on daily balances credited, \$1.17.

3d. Give Mrs. Howell her allowance for the month and give President Howell \$60 for private use; pay annual premium on New York Life Insurance policy, \$249.78; send Mary a check for her allowance; pay first installment of Mary's tuition for the year at Vassar, \$75.

5th. Pay gas, electric light and telephone bills, \$11.90; bills for groceries, meats, etc., \$74.82.

6th. Pay wages of janitors and servants for the week; rents received from 426 Main Street, \$210.

10th. Took savings bank book to the bank and had semi-annual interest entered, \$15.37.

13th. Pay wages for the week.

15th. Buy a typewriter of the Fox Typewriter Co. for \$100; the company allows \$20 for President Howell's old Oliver.

18th. J. W. Whitten, a real estate agent, sells one of the Magnolia Terrace lots for \$1500, charging 2% as his commission.

20th. Pay wages for the week.

21st. Repairs to automobile, \$3.85; membership dues in the American Economic Association, \$5.

25th. Pay bill of W. B. Clark Co., for books, \$23.25.

27th. Pay wages for the week.

28th. Bought two new tires for automobile, \$62; gasoline, \$10.20; pay six months' water rent as follows: residence, \$12; 426 Main Street, \$7.50; 744 Harrison Avenue, \$10.

29th. Pay carpenter's bill for making storm doors and windows for residence, \$70; had a cement driveway built leading from the garage to the street, costing \$40; pay bill of painter and paper hanger for painting woodwork and papering two rooms in one of the suites at 744 Harrison Avenue, \$16.80.

30th. Received royalties on book No. 1, \$570.50; No. 2, \$324.67.

Close Cash Book, post, and take a trial balance.

DECEMBER TRANSACTIONS

1st. Received salary check; received rents from 426 Main Street, \$140; 744 Harrison Avenue, \$35; the mortgage on the property of W. T. Morgan is due today; as Mr. Morgan is not able to pay off the mortgage now, you agree to renew it for six months; a new mortgage note is made out and the record of the renewal made; interest to date paid in cash.

2d. Received rent from 744 Harrison Avenue, \$37.50; rents from 426 Main Street, \$100; received November bank statement showing interest on daily balances credited, \$1.68; pay gas, electric light and telephone bills, \$13.65; send Mary a check for her allowance; pay secretary and chauffeur.

3d. Give Mrs. Howell her allowance and give President Howell \$100 for personal use; pay bills for groceries and provisions, \$81.96.

4th. Pay wages for the week; received rents from 426 Main Street, \$225.

7th. Received a legacy of \$1000 from the executor of the estate of an aunt who died about a year ago. (Credit Capital account.)

8th. Pay bill of William H. Richardson & Co. for clothing bought by President Howell, \$72; pay bill of Jackson & Sons for four pairs lace curtains, \$48, and one Wilton rug, \$52.

10th. Bought a section for a Macey sectional bookcase, \$6.

11th. Pay wages for week. The insurance policies on the residence and household equipment expire the 15th; they are renewed today for three years, the premium on the residence amounting to \$21.60; on the household equipment, to \$16.

12th. With the legacy received on the 7th, President Howell bought through a broker 5 shares Adams Express Co. stock at $176\frac{1}{4}$, brokerage, $\frac{1}{8}\%$; the stock pays 3% on the last day of March, June, September and December.

13th. As President Howell does not wish to take advantage of the privilege of subscribing to the new stock issue of the American Telephone and Telegraph Co., to be made January 1, he sells his twenty "rights" at \$7.10 each, less broker's commission of 10¢ per "right."

15th. A friend of President Howell's has a summer cottage in northern Michigan for sale for \$1200, which is considered a bargain. President Howell has purchased it, giving his check for the purchase price.

16th. Received interest on City of Springfield bonds.

18th. Pay wages for the week; received rent from 426 Main Street, \$55.

22d. President Howell has made up a list of magazines for which he wishes to subscribe, placing the subscriptions with the W. H. Moore Agency, sending his check for \$18.75.

24th. Send check to the Second Presbyterian Society in payment of pew rent for next quarter \$12.50.

25th. Pay wages for the week.

27th. As U. S. Steel has been selling close to 70, President Howell places an order with his broker to sell at that price. The stock was sold yesterday and a check is received today less commission of $\frac{1}{8}\%$. The stock was sold ex-dividend.

29th. Pay for repairs to boiler in 426 Main Street, \$32.60; have 20 tons coal delivered at 426 Main Street at \$7.60 per ton.

30th. Received dividend from Adams Express stock and from U. S. Steel stock.

31st. Buy through a broker 10 shares Chicago & Alton R.R. 5% stock at $67\frac{1}{2}$, usual brokerage; deposit in the Franklin Savings Bank an amount sufficient to bring the account up to \$1000.

The investment in La Verde Mining Co. stock proved to be very unfortunate. The stock has never paid a dividend, and it has been felt for some time that the investment represents an absolute loss. Prior to closing the books on December 31, therefore, President Howell advises you to write off this stock as a direct loss; in fact, knowing that it had little or no value, it should not have been included in the statement of assets prepared at the time the books were opened.

Close Cash Book, post, and take a trial balance, after which the following work is required:

(a) Make adjustment entries for the following: interest prepaid on Mortgage Payable; interest accrued to date on Mortgage Receivable; write off a depreciation of 25% on the cost of the automobile. Automobile Expense.

(b) Prepare a Statement of Income and Expense for the three months ended December 31.

(c) Prepare a Balance Sheet.

(d) Make closing entries, post them and rule Ledger accounts.

(e) Prepare a tabulated statement showing the annual rate of income realized from each of President Howell's investments. Why is the rate of income from the two rental properties as revealed by the Ledger accounts not the true annual rate?

(f) Prepare a statement showing the yearly expense to President Howell of owning his own home and its equivalent in monthly rent.

EXERCISE 11

QUESTIONS ON PRIVATE AND HOUSEHOLD ACCOUNTS

1. Give several arguments in favor of keeping private and household accounts.
2. Under what circumstances do you think it practicable for the accounts of a private individual to be kept after the manner illustrated in the Private Accounting exercise?

3. Design a specimen page of a book in which to keep private and household accounts in cases where the family finances are not extensive enough to justify double-entry bookkeeping. The book is to last one year, each month occupying a double page. Design also recapitulation sheet for the entire year.

4. Define the term budget; what are the economic advantages of a budget?

5. Make up a budget for a family of three with an income of \$1800, showing the division of income among the following: Rent, Food, Clothing, General Household Expenses, Savings (including Insurance), Educational and Social, Church, Charity and Dues. Show percentage also.

6. Make up a similar budget for a family of four with an income of \$5000, adding other classes of expenditure if you think it advisable.

7. What are your views on the advisability of maintaining an inventory of household furniture and equipment? State advantages and disadvantages.

8. Design a form which could be used as a perpetual inventory of household furniture and equipment, and state how it would be used.

9. Distinguish between the following standard types of life insurance policies: endowment, straight life, and term.

10. Distinguish between mutual and stock insurance companies.

11. What are the objections to assessment or fraternal insurance associations?

12. What is meant by the "cash surrender value" of an insurance policy? How long after the policy is taken out before it has a cash surrender value?

13. If it is desired to carry accounts with life insurance policies on the books, at what amount should they be carried? To what class would such accounts belong?

14. In opening a set of private books for an individual who owns his residence and several pieces of investment property, what value would you recommend placing upon the property? What value would you place upon securities owned?

15. What two separate accounts should be kept with each piece of property and why? What name would you give each account for bookkeeping purposes?

16. State clearly how an account with vacant land should be handled.

17. State the function of the Securities Owned account. What other name might be given to this account?

18. State several important distinctions between stocks and bonds.

19. Distinguish between par and market value. Upon which value are dividends declared and interest paid?

20. What entry would you make for bonds bought at a premium? At a discount? What disposition would you make of such premium or discount?

21. What are "rights"? What is the customary rate of broker's commission? Is it reckoned upon par or market value?

22. Distinguish between rate of dividend or interest and rate of income.

23. How would you reckon the rate of income on securities?

24. Luther Wright bought five house lots on Crescent Street on June 10, 1914, for \$7500; he paid for grading and sodding, \$112.50; taxes, 1914, \$86; constructing sidewalks, \$250. January 12, 1915, he sold one of the lots for \$2000. How would you handle the above on the books of Mr. Wright?

25. J. S. Snow owns 25 shares of Baltimore & Ohio, pfd. which cost him 69. The stock pays an annual dividend of 4%. What rate of income does it yield?

26. What entry would you make in case a certain investment is written off the books because of its being worthless?

27. You appreciate the need of a book to be used as a record of investments; different sections of the book are to be used for stocks, bonds, savings bank accounts, insurance policies, both life and property, and mortgages. Design a specimen page for each section.

28. Make a list of the usual regular expenses resulting from the ownership of one's home. How would you find the equivalent in monthly rent?

29. F. B. Southwick owns a business block which cost him \$75,000; he gave a purchase money mortgage for \$40,000 at $5\frac{1}{2}\%$. From January 1 to December 31, 1914, he received in rents, \$14,000. During the same period the expenses of the property were as follows: Taxes of \$17.20 on an as-

sessed valuation of \$70,000; insurance, \$250; janitor service, \$1200; fuel, \$832.75; lighting of corridors, stairways, etc., \$92.60; repairs, \$517.60; water rent, \$80; he takes into account an annual depreciation of 2% on cost of the building, \$60,000. Find the net income from the property for the year; also rate of income on owner's investment.

30. An account with Investments appears on the private books of Miss E. H. Wendell, the account having been charged by her secretary with the cost of bonds and stocks purchased.

(a) Included in the account are 20 shares of American Woolen which cost 62; on December 23, 1914, the stock was sold by her broker for 75½. What entry should be made?

(b) Included in the account are 10 \$500 5% bonds of the X. Y. Z. R.R. which were bought for 104½; these bonds mature on March 1, 1915, and are paid off by the company. What entry should be made at maturity?

31. What distinction is made between the function of the accounts Maintenance of Residence and Household Expenses?

32. What entry would be made for semi-annual interest added to a savings bank account?

33. What points should be brought out by a Statement of Income and Expense prepared for an individual?

34. What method would you advise for filing paid bills in household accounting? How long would you keep such bills?

35. How many hours a week do you think would be required to do the amount of work illustrated in the private accounting exercise?

36. To what practical uses can a numbering machine be put in an office? Where can this appliance be procured and what is its cost?

37. E. A. Merriam purchased a building lot in 1910 for \$2000, and sold it five years later for \$2750; during this time he paid taxes amounting to \$115 and incidental expenses \$60. Allowing interest on the original investment at 5%, what was his profit? His per cent of profit?

38. If Mr. Merriam in the question above had deposited his money in savings banks where the interest was compounded semi-annually at 2%, how much money would he have had five years later?

39. Henry G. Stone bought a building lot on Burroughs Street costing \$2200, on which two years later he built a two-family house costing \$8112. During the two years which elapsed before the house was completed, he paid taxes on the lot, \$50; city assessments for sewer and gas connections, \$75; incidental expenses, \$30. He charged 4% interest on his original investment to the cost of the property. During the first year, the two apartments were rented for \$40 and \$45, respectively. The maintenance expenses during this time were insurance, \$30; taxes, \$162.50; repairs, \$72.50; water rent, \$37.50; he takes into consideration 2% depreciation on the cost of the house.

Journalize the above and set up ledger accounts showing the cost of the property and the net income for the first year; also, the rate of income.

40. N. F. Silsbee purchased the Dewey Building on January 1 for \$60,000, paying \$42,000 cash, giving a mortgage for the remainder bearing interest at 5½%. February 1, received cash for January rent, \$1200; February 5, paid insurance for one year, \$200; March 1, received February rent, \$1160, paid janitor's salary for January and February, \$150; March 12, paid for putting a suite of offices in good condition for new tenant, \$35; March 15, paid water rent to June 30, \$80; March 31, received March rents, \$1000; paid electric light bill for corridors, stairways, etc., for the three months, \$30; elevator service and repairs for the same time, \$200; coal used for the three months, 80 tons at \$7.50 per ton; estimated taxes for the period, \$375; miscellaneous repairs, \$112.50; new directory of offices and tenants installed, \$100; construction of additional fire escapes, \$400; rents due and unpaid, \$220.

Journalize the above, set up Ledger accounts showing the cost of the property and the net income therefrom, taking account of expenses and income accrued and expenses prepaid. Find rate of return on Silsbee's investment.

41. What do recent statistics show to be the income of the average family in the United States?

42. What are the chief characteristics of a good investment?

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EXERCISE 12

LIBRARY ACCOUNTS

The Clark Library, Dayton, Ohio, was established under the will of Judge Henry Curtis Clark, who died on March 27, 1893. By his will he gave the greater part of his property to the "Inhabitants of the city of Dayton" for the founding of a free public library.

The State Legislature by Chapter 210, Acts of 1893, gave authority to the city "to adopt and execute all the provisions of the will of Henry Curtis Clark, relating to the establishment and maintenance of a library in Dayton, and to perform all the conditions and to assume all the obligations mentioned in said will, and to be forever bound to the performance thereof."

The legislature on December 12, 1895, granted a charter incorporating the "Trustees of the Clark Library," and at a meeting of the City Council held December 20, the city accepted the provisions of the Acts of Incorporation and bound itself to the performance of the conditions of the will; among other things the city obligated itself:

"1. To pay all expenses incurred in the management and administration of the affairs of said library over and above the income derived from the fund provided by the will.

"2. To keep the library building in repair and to rebuild same in case of its destruction by fire or any other casualty.

"3. To erect or provide such other building or buildings as may hereafter become necessary in consequence of the enlargement of the library."

The will of Judge Clark provided for the establishment of three funds as follows:

A **Building Fund** of \$30,000 plus one-half of the income from all the funds to the end of the period set by the City Council during which the funds were to accumulate, this fund to be used in the purchase or erection and the equipment of a fireproof library building.

An **Aid Fund** of \$50,000, the income to be used in aid of the city in paying the maintenance expenses of the library.

A **Book Fund** consisting of the balance of the property after the creation of the other two funds, but not less than \$150,000, to be carefully invested and kept intact, and the income to be used in the purchase and binding of books, photographs, works of art, music, etc., and for no other purpose.

The City Council voted to allow the funds to accumulate until January 1, 1904, at the end of which time the trustees proceeded to erect and equip a building which, when completed, cost \$123,-913.65, the equipment costing \$8512.37 additional. The library was opened to the public in May, 1905.

In July, 1905, Dr. Herman Lowe died, and by his will gave to the inhabitants of the City of Dayton fifty thousand dollars to be securely invested until the same should amount to at least sixty thousand dollars, said fund to be known as the Lowe Aid Fund, and the income thereof to be used in aid of the City of Dayton in defraying the necessary current expenses of the Clark Library. The bequest was accepted and received by the city and was placed in charge of the treasurer.

The library under the control of an efficient and public-spirited Board of Trustees, elected by the citizens of Dayton, as provided in the will of Judge Clark, and under the administration of a capable, forceful, and practical librarian, very rapidly came to occupy a prominent place in the educational and social development of the city, and early justified the wisdom, generosity, and foresight of the donor.

The treasurer, elected by and from the Board of Trustees, is the financial officer of the library. The income from the different funds is made payable to him, and he pays all bills after they have been properly authorized for payment, and keeps a record of all receipts and disbursements, together with such accounts as will show the financial status of the library. He submits an annual report which is published as a part of the annual Report of the Trustees of Clark Library, under date of June 30, which is the last day of the fiscal year. The treasurer is assisted in the clerical work connected with keeping the accounts of the library by one of the members of the library staff who spends three afternoons each week in his office. The treasurer receives a salary of \$500.

The double-entry system of bookkeeping is used, and accounts are kept with assets, liabilities, and funds, with the different sources of income, and with the operating expenses. This method of keeping the books enables the treasurer to submit a report, showing the true financial condition of the library, together with an accurate statement of income and expenditure, and marks a distinct step in advance of the loosely kept, unscientific system of accounting which is all too common among libraries. If a record is kept only of cash receipts and disbursements, with no attempt

to keep accounts with investment assets, it is impossible to determine the actual condition of the finances; if, on the other hand, the system of bookkeeping is so designed as to make possible a comparison of fixed and current assets covering a period of years, interesting conclusions may be drawn and helpful suggestions may be obtained which will aid the trustees in the financial administration of the library; furthermore, if the library is dependent, in whole or in part, upon aid from the city, the appropriation asked for might not be voted, unless the trustees were able to present an accurate statement of the finances of the library, together with a true accounting of income and expenditure.

The only books that the treasurer keeps are a Journal, Cash Book and Ledger. The Accessions Book is kept by the librarian and shows the cost or donated value of all books acquired. The librarian orders all books and supplies, approves the invoices when they come in, approves all expense bills, makes out the pay rolls, and turns them over to the treasurer for payment; receipts from fines are turned over to the treasurer every month. The librarian is supplied with a Librarian's Fund from which small payments are made for supplies, minor repairs, express, car fare, etc. This fund is in charge of the same member of the library staff who assists the treasurer in keeping the accounts; she also gives a part of her time to secretarial and office work for the librarian.

Two separate bank accounts are kept by the treasurer. An account with the income from the Book Fund and with Lost Books Fund is kept in the Dayton National Bank, and one with the income from the Aid Funds and from all other sources, in the Merchants Trust Company. The three funds are managed entirely by the trustees, of which the treasurer is chairman. The trustees are responsible for the judicious investment of the funds, and for all records pertaining thereto.

A trial balance is taken monthly of the treasurer's General Ledger. The following is a copy of the trial balance taken March 31, 1910:

Cash — Dayton National Bank.....	\$837.29	
Cash — Merchants Trust Co.....	587.09	
Librarian's Fund.....	25.00	
Library Building and Lot.....	123,913.65	
Furniture and Equipment.....	27,630.87	
Book Fund Investment.....	215,400.00	
Clark Aid Fund Investment.....	50,000.00	
Lowe Aid Fund Investment.....	60,000.00	
Books (½ page).....	118,109.91	
Art and Music.....	27,657.80	
Book Fund.....		\$215,400.00
Clark Aid Fund.....		50,000.00
Lowe Aid Fund.....		60,000.00
Lost Books Fund.....		24.80
Surplus invested in Building and Equipment.....		151,544.52
Surplus invested in Books, Art and Music.....		139,667.66
General Surplus.....		25.00
Income from Book Fund.....		6,912.54
Income from Aid Funds.....		4,461.30
City Appropriation.....		6,000.00
Interest on deposits — Merchants Trust Co.....		21.27
Income from Fines.....		152.25
Income from sale of Waste.....		132.68
Salaries of Librarian and Staff.....	3,762.60	
Newspapers and Periodicals.....	263.17	
Rebinding, Lettering and Repairing.....	152.97	
Library Supplies.....	232.80	
Expenses of Treasurer's Office.....	676.45	
Maintenance of Real Estate.....	2,830.20	
Maintenance of Forest Park Branch.....	1,637.20	
General Expenses (1 page).....	337.52	
Insurance on Books and Equipment.....	287.50	

\$634,342.02 \$634,342.02

Comments on the Trial Balance:

It is the custom to close the books annually. As the fiscal year ends June 30, the above trial balance shows the accumulation of income and expense since July 1, 1909.

It will be observed that the credits to Book Fund, Clark Aid Fund and Lowe Aid Fund are the same as the debits to Book Fund Investment, Clark Aid Fund Investment, and Lowe Aid Fund Investment. When each fund or endowment was originally received, an entry was made debiting Cash (if the executor of the estate turned over the gift to the library in cash), and crediting the proper fund. When this cash was invested in income-producing property or securities, an entry was made debiting the proper fund investment account and crediting Cash, leaving the accounts as they appear above. The **fund accounts** represent the liability or the accountability of the trustees of the library to the donor; the **investment accounts** represent the property or securities in which the funds are invested.

Note that the sum of the debits to Library Building and Lot account and Furniture and Equipment account agrees with the credit to Surplus Invested in Building and Equipment.

At the close of the fiscal year, an adjusting entry is made, debiting Income from Book Fund and crediting Surplus Invested in Books, Art and Music for the total purchases of books, art and music for the year. When this entry is made, the sum of the debits to the Books account and to the Art and Music account should agree with the credit to Surplus Invested in Books, Art and Music. The adjusting entry may be made monthly if preferred.

The total of the accounts showing operating expenses subtracted from the total income exclusive of Income from Book Fund equals the balance in the Merchants Trust Company, this being the unexpended balance of the income from Aid Funds and from all other sources. The balance of the account in the Dayton National Bank shows the unexpended balance of the Income from Book Fund, plus the balance of the Lost Books Fund; or, in other words, the Income from Book Fund less the balance in the Dayton National Bank equals the investment in books, art and music made since the beginning of the fiscal year.

A careful study should be made of all the items in the trial balance. The use and function of each Ledger account should be understood and the rules for debiting and crediting each account carefully learned.

General Remarks:

You are the member of the library staff whose duty it is to assist the treasurer in keeping the accounts. You may open a new Ledger, allowing one-third of a page to all accounts in the March trial balance with assets, liabilities, and funds, one-half page to all income and expense accounts.

As most of the bookkeeping work consists of recording cash receipts and payments, the Cash Book is the most important book of record. The left-hand page should be headed "Cash Receipts," and columns provided for Date, L. F. (Ledger folio), Account Credited, Explanation, D. N. B. and M. T. Co.; the heading of the right-hand page should be "Cash Disbursements," and the columns headed Date, L. F., Account Debited, Explanation, D. N. B. and M. T. Co. The cash balance should be recorded under date of April 1. Enter the proper balance on the first stub of each of the Check Books.

The Journal is used only for such current transactions as do not belong in the Cash Book, for closing and adjusting entries, and for recording data and memoranda of historical value. In addition to its use in a strictly bookkeeping sense, the Journal should be regarded as a diary of events associated with the growth of the library.

All cash received by the treasurer, in whatever form, is deposited promptly, all receipts except the income from the Book Fund being deposited in the Merchants Trust Company. All disbursements are made by check with the exception of the petty payments made by the librarian from the Librarian's Fund. In paying bills, care should be taken to draw the checks against the proper bank account. It should be remembered that only invoices covering the purchase of books, works of art, and music, and bills for binding, are paid out of the Dayton National Bank account. Each bank pays interest on daily balances of over \$100.

The appropriation made by the City Council for the current year was \$8500. The librarian and staff, treasurer, janitors and other regular employees, receive a yearly salary payable in equal installments on or about the 15th and the 30th of each month. The treasurer's assistant receives \$50 per month as a member of the library staff and it is agreed that one-third of her salary shall

be charged to the expenses of the treasurer's office. The present librarian is Henry W. Cutter; treasurer, Charles W. Childs. Checks should be signed, Chas. W. Childs, Treas., By _____.

RULES FOR DEBITING AND CREDITING CERTAIN ACCOUNTS FOUND IN THIS EXERCISE THAT ARE PECULIAR TO A LIBRARY

CASH — DAYTON NATIONAL BANK

Debit:

With the income from the Book Fund, with interest on deposits and with money received from lost books.

Credit:

With all payments for books, art and music, and for binding.

The balance represents the unexpended balance of income from the Book Fund, plus the balance of the Lost Books Fund.

CASH — MERCHANTS TRUST COMPANY

Debit:

With the income received in cash from all sources except from the Book Fund, and with interest on deposits.

Credit:

With all payments made except for books, art and music, and binding.

The balance represents the excess of income received in cash over the disbursements for operating expenses.

BOOKS

Debit:

With the cost price of books purchased or with the appraised value of books donated.

Credit:

With the cost or donated value of books lost, discarded, or otherwise disposed of.

The balance of the account is an asset and shows the cost of all books in the library.

ART AND MUSIC

The same rules apply to debiting and crediting this account as are given for the Books account.

LOST BOOKS FUND

Debit:

With the cost price of books bought to replace lost copies for which payment was made to the library.

Credit:

With money received for lost books.

The balance of the account showing the amount not yet invested in new books should appear on the Liability side of the Balance Sheet under the sub-heading "Funds."

SURPLUS INVESTED IN BUILDING AND EQUIPMENT

The credit to this account represents the investment of gifts, bequests, or of any part of the general fund in buildings and equipment.

The balance should be shown on the Liability side of the Balance Sheet under the sub-heading "Surplus."

SURPLUS INVESTED IN BOOKS, ART AND MUSIC

Credit this account by means of a Journal entry made monthly or yearly with the investment in books, art and music for the period; at the same time debit Income from Book Fund.

The balance of the account represents the total surplus invested in books, art and music, and should be shown on the Liability side of the Balance Sheet under the sub-heading "Surplus."

GENERAL SURPLUS

Debit or credit this account at the close of the fiscal year with the balance shown by the Income and Expense account.

If a part of the general surplus is expended for additions or improvements to the building or

equipment, an entry should be made in the Journal debiting General Surplus and crediting the proper Surplus Investment account, in addition to the entry in the Cash Book debiting the proper Asset account and crediting Cash.

A deficit for the period is shown if the debits to the account exceed the credits; a net surplus is shown if the credits exceed the debits.

INCOME FROM BOOK FUND

Debit:

Monthly or yearly, as preferred, with the investment in books, art and music made during the period; at the same time, credit Surplus Invested in Books, Art and Music.

Credit:

With the income received from the Book Fund investments and with interest on deposits as shown by the monthly statements received from the bank in which the income is deposited.

The balance shows the unexpended income from the Book Fund and should be entered on the Liability side of the Balance Sheet.

INCOME FROM AID FUNDS INTEREST ON DEPOSITS — MERCHANTS TRUST COMPANY INCOME FROM FINES INCOME FROM SALE OF WASTE

Credit:

With income received from the sources indicated by the titles of the accounts.

At the close of the fiscal year, these accounts are closed into the Income and Expense account by means of a Journal entry.

SALARIES OF LIBRARIAN AND STAFF REBINDING, LETTERING AND REPAIRING INSURANCE ON BOOKS AND EQUIPMENT

Debit:

With all payments made for the purposes indicated by the titles of the accounts.

NEWSPAPERS AND PERIODICALS

Debit:

With subscriptions to the newspapers and periodicals with which the reading room is supplied.

Subscriptions to newspapers and periodicals are usually paid for out of the current funds of the library and not out of the income from book funds. The expense of binding periodicals, however, which are to be placed on the shelves, should be met out of the income from book funds, and should be debited to the Books account at the cost of binding.

LIBRARY SUPPLIES

Debit:

With the cost of all supplies bought for use in the main library, including stationery, ink, pens, typewriter supplies, paste, dating stamps, numbering stamps, rubber stamps, blotting paper, waste baskets, erasers, shears, etc.

EXPENSES OF TREASURER'S OFFICE

Debit:

With salary of treasurer, with services of assistant, and with all supplies bought for use in connection with the work of the treasurer, such as blank books, printed forms, stationery, etc.

MAINTENANCE OF REAL ESTATE

Debit:

With the cost of repairs to building and fixtures, fences, cement walks and grounds, and with janitors' services, janitors' supplies, insurance on buildings, water tax, extra help for cleaning, etc.

MAINTENANCE OF FOREST PARK BRANCH

Debit:

With salary of branch librarian and assistants, expressage on books to and from the main library, rent of building, heating, lighting, telephone service, supplies, etc.

GENERAL EXPENSE

Debit:

With light, fuel, postage, telephone service, telegrams, traveling expenses, entertaining, publicity, etc.

At the close of the fiscal year, the balances shown by the accounts showing expenses of operating the library are closed into the Income and Expense account by means of a Journal entry.

Following is a list of additional accounts suggested for libraries:

Balance Sheet Accounts:

Statuary.
Securities Owned.
Accounts Receivable.
Inventories of:
 Library Publications.
 Library Supplies.
 Fuel and Janitor's Supplies.
Insurance Premiums Prepaid.
Notes Payable.

Income and Expense Accounts:

State Appropriation.
Subscriptions.
Donations.
Income from Securities Owned.
Income from Rents.
Income from Sale of Library Publications.
Income from Fees of Non-Residents.
Freight and Express.
Telephone and Telegrams.
Rent, Heat and Light.
Interest on Notes Payable.

TRANSACTIONS FOR APRIL

2nd. Bank statements received showing interest on daily balances for March in the Dayton National, \$5.30; (Credit Income from Book Fund) Merchants Trust, \$8.06; (Credit Interest on Deposits); receive April installment of city appropriation, \$500.

5th. Receive income Clark Aid Fund, \$67.50; pay Dayton Gas and Electric Co. lighting bill for March, Main \$32.99, Branch, \$7.80; Herald Printing Co., library supplies, \$22.50; Central Telephone Co., March, \$3.25; Elite Laundry, \$4.56.

6th. Make a deposit of checks on hand; receive income from Book Fund, \$600; E. R. Cullen pays for lost book, \$2.60; pay A. B. Holmes for typewriting, \$13; Merchants Trust, safe deposit box rental, \$8; make deposit.

10th. Pay Berlin Photograph Co., photographs, \$185.15; Richard Badger, books, \$114.46; P. Blackington Sons Co., binding, \$26.90.

13th. Receive income from Lowe Fund, \$125; pay Anderson Auction Co. for books, \$312.15.

15th. Write check covering pay roll as follows: librarian and staff, \$275; treasurer, \$20.83; janitors, \$57.50; charge \$60 of pay roll to Maintenance of Forest Park Branch (\$60 included in \$275).

16th. Sell a lot of old catalogue cards to the School Department, City of Dayton, \$17.50.

19th. Make a deposit; pay Library Bureau for supplies, \$108; Lea & Febiger, books, \$184.30.

22d. Pay dues American Library Association, \$5.

23d. Pay James Munroe for repairing roof and chimneys, \$9.80.

25th. Receive income from Aid Funds, \$72.50.

28th. Pay Smith Premier Typewriter Co. for repairing machines, \$14.85; librarian's bill for traveling expenses, \$16.45; Kimball & Cory Coal Co., coal, \$190.

30th. Receive income from Aid Funds, \$30; Book Fund, \$60; write check for pay roll; make deposit.

You have charge of the Librarian's Fund and make most of the payments from it. The fund is conducted according to what is known technically as the "Imprest Fund" system.

To establish the Imprest Fund, a check is drawn by the treasurer for an amount which it is thought will be adequate for all demands upon the fund for a certain period, say a month. An entry is made in the Cash Book debiting Imprest Fund, Petty Cash Fund, Librarian's Fund, or whatever other name may be given to it. The check is then converted into currency which is given to the person who is to have charge of the fund. The currency should be placed in a drawer or cash box, entirely apart from all other cash. Vouchers should be secured supporting every payment made from the fund, each payment being recorded in a Petty Cash Book. At the close of the month, or earlier, if the fund becomes exhausted, a statement of all payments made from the fund together with vouchers supporting same, is turned over to the treasurer who draws a check for an amount equal to the total disbursements as shown by the statement. When this check is cashed, it restores the fund to its original amount. When the check is drawn replenishing the fund, an entry is made in the General Cash Book, charging the proper accounts with the payments made from the fund as shown by an analysis of the statement rendered by the petty cashier. It will be seen that the fund after being created remains intact; it is neither debited nor credited unless it is decided to permanently increase or diminish the fund. The currency in the petty cash drawer plus the total of the vouchers should at all times agree with the amount of the fund as shown by the Imprest Fund account.

The following is suggested as a form of petty cash voucher:

PETTY CASH VOUCHER	
.....191..	No.....
Received from Clark Library	\$.....
for	
Charge.....	Account
(Signed)	

On April 1, you had in the petty cash drawer currency equal to the full amount of the fund, the fund having been replenished on March 31. During April you made payments from the fund

as follows: April 7, stamped envelopes, \$10.24; 12th, express, \$1.25; 17th, car fare, 50¢; 18th, brooms, \$1.60; 22d, express, 60¢; 25th, two panes of window glass replaced, \$1.50; 29th, parcel post stamps, \$1; 30th, express, 75¢.

Show the Petty Cash Book with all payments for the month entered. On May 1, you submit a statement to the treasurer showing the April disbursements, and a check is drawn to replenish the fund. Draw the check and make proper entry for it in the General Cash Book.

Close Cash Book and post all entries to the Ledger; in posting, write suitable explanations in the space provided in the Ledger, so that the postings will be self-explanatory. Take a trial balance.

MAY TRANSACTIONS

- 1st. Receive May installment of city appropriation, \$1000.
 - 2d. Receive bank statements showing interest credited on daily balances in Dayton National, \$1.10; in Merchants Trust, \$1.32; receive from librarian for fines, \$3.60.
 - 3d. Receive income from Lowe Aid Fund, \$119.75.
 - 4th. Make deposit; pay Dayton Gas & Electric Co., lighting, Main, \$22.44, Branch, \$6.35; supplies, \$6.05; Elite Laundry, \$6.10; Central Telephone Co., \$3.25; Diamond Paste Co., \$3.50.
 - 6th. Pay Kingsbury Printing Co. for printing, \$6.50.
 - 10th. Receive income from Book Fund, \$120; Thomas Hart pays \$1.50 for a book which he lost.
 - 11th. Receive income from Aid Funds, \$32.50; pay W. B. Clark Co. for books, \$20; these books were bought to replace lost copies for which payment has been received; make deposit.
 - 13th. The Trust Funds Committee report the sale of a parcel of real estate in which a part of the Lowe Fund was invested, at an increase over cost of \$5000; the amount received for the real estate was immediately invested by them in bonds. (Journal entry.)
 - 14th. Pay Charles Jacobs for books, \$103.75; Detroit Publishing Co., photographs, \$24.80; G. E. Stechert & Co., books, \$87.92.
 - 15th. Write check for pay roll.
 - 17th. Buy typewriter from Fox Typewriter Co., \$110; pay invoice of Library Bureau for new cabinet case, \$292; buy new chairs of C. N. Harlow Co., \$57.60. (As these purchases represent an investment of a part of the Aid Fund in new equipment, a Journal entry should also be made debiting General Surplus and crediting Surplus Invested in Building and Equipment.)
 - 18th. Receive income from Aid Funds, \$102.25; make deposit.
 - 20th. Receive a bequest of \$10,000 from the estate of Samuel W. Lee for the creation of a fund to be used in the purchase of a lot and the erection of a suitable building for the Forest Park Branch. This fund, to be known as the Forest Park Building Fund, is to remain in the custody of the treasurer and by him invested until such a time as the fund increased by interest accumulations, subsequent bequests or gifts, or by appropriation of the City Council shall be adequate for the purpose intended; receive also from the executor of the estate the sum of \$500 which with interest accumulations is to be used in the purchase of a memorial tablet to be placed in the building when erected. This bequest together with the Memorial Tablet Fund is deposited in the Merchants Trust Company awaiting investment. Write a memorandum of this bequest in the Journal.
 - 23d. Receive from sale of waste paper, \$12; pay Wheat & Packard for rubber matting, \$33.
 - 24th. Pay Globe Printing Co. for printing 1000 copies of the Clark Library By-Laws and Regulations for free distribution, \$125.
 - 25th. Receive income from Aid Funds, \$55; income from Book Fund, \$300.
 - 27th. Pay Frank W. Kidder \$100 for option on proposed building lot for new branch library, the option to expire June 15. (Debit Option on Building Lot.)
- An option in the above sense is a privilege, granted for a limited time and secured by the payment of a nominal sum of money, of purchasing land at a certain price. The amount paid for the option applies on the purchase price in case the sale is completed.
- 29th. Make deposit; transfer by check the Lee Memorial Tablet Fund to the Park Savings Bank where it will go on interest June 1; write check for pay roll. Submit statement of petty cash payments for May as follows: 5th, post cards, \$2; 8th, luncheons, \$1.50; 11th, incidental supplies, \$2.40; 12th, expressage, \$1.40; 18th, postage, \$10; 25th, extra help cleaning, \$2.60; write a check for the replenishment of the fund; make entry in the General Cash Book; show Petty Cash Book with May payments recorded.

Close Cash Book, post all entries from Cash Book and Journal, and take a trial balance.

TRANSACTIONS FOR JUNE

2d. Receive remainder of city appropriation for the fiscal year, \$1000; receive income from Book Fund, \$250; deposit these amounts.

3d. Receive Dayton National statement for May showing interest added, \$1.38; Merchants Trust, \$6.12; receipts from fines for May, \$11.30.

4th. Pay the following bills: Elite Laundry, \$4.75; Dayton Gas & Electric Co., Main, \$19.71, Branch, \$5.95; Central Telephone Co., \$3.90; Carter's Ink Co., ink and pens, \$6.25.

6th. Cashed check of \$50 to provide Mr. Cutter, the librarian, with traveling expenses while attending the meeting of the American Library Association to be held in Pittsburgh, June 8-10.

9th. Pay Phelps & Co., \$16.50 for repairing clock.

10th. Receive from sale of waste paper, \$18.75.

11th. Pay Chivers Bookbinding Co., binding magazines, \$205.60; D. Appleton Co., books, \$131.85; Boston Music Co., music, \$24.60.

12th. Pay Dennison Manufacturing Co., library supplies, \$4.50; Dayton Art Store, framing pictures, \$35. (Charge Art and Music.)

14th. Receive income from Book Fund, \$300; Mr. Cutter refunds expense money, \$16.80.

15th. Write check covering pay roll, \$353.33; take up option on building lot which expires today; the price agreed upon for the lot is \$2500; write Mr. Kidder a check for that amount, less the \$100 already paid. (Make a Journal entry closing Option on Building Lot account into Forest Park Building Lot account.)

16th. Receive income from Aid Funds, \$22.50; make deposit.

18th. Pay Elson & Shaw, attorneys, for preparing abstract of title of Forest Park lot, \$10.

19th. Invest remainder of Building Fund in City of Dayton 4's, 1920, denominations of \$1000, at 96¼ and accrued interest, interest payable semi-annually, on the 30th day of June and December; the uninvested portion of the fund is deposited in the Park Savings Bank. (Make an entry debiting Forest Park Building Fund and crediting Surplus Invested in Forest Park Building Lot for cost of lot to date.)

A **Bond** is an interest-bearing obligation of a city, State or government, or of a private corporation, to pay to the bearer or registered holder thereof, the principal amount of the bond, at a fixed date of maturity.

A bond is usually spoken of by the name of the government or corporation issuing it, by the rate of interest it bears, and by the year in which it matures. Example: United States Steel, 4's, 1936.

Bonds are usually issued in denominations of \$500 and \$1000, although many corporations now issue them in denominations of \$100.

22d. Pay Buffalo Historical Society for books, \$23.20; Chivers Bookbinding Co., binding magazines, \$217.79.

23d. Pay J. W. Hanford, blotting paper, \$8; West Disinfecting Co., supplies, \$17.50.

25th. Pay bill of H. C. Paul & Co. for two new tables for reading room, \$65. (Addition to equipment.)

26th. Pay Ritter & Flebbe, books, \$47.50; G. E. Stechert & Co., books, \$187.70; pay Dayton Binding Co., rebinding books, \$9.60.

27th. Pay Hayden Express Co. bill for transferring books to and from Forest Park Branch, \$20.

28th. Pay J. B. Lippincott Co., books, \$75; Doubleday, Page & Co., books, \$112.35.

29th. Pay C. H. Lyman & Co., subscriptions to periodicals, \$38.60; receive income from Aid Funds, \$13.62.

30th. Receive check for interest on City of Dayton bonds which is immediately deposited in Park Savings Bank; write check for pay roll; pay John F. Martin, agent, rent of rooms occupied by the Forest Park Branch for April, May and June, \$300.

Petty cash payments for June were as follows: 3d, express, 75¢; 6th, postage stamps and post cards, \$5; 15th, recording deed, \$2; 22d, library supplies, 30¢; 25th, lawn mower sharpened, 25¢; 29th, carfare, 20¢; write check for the replenishment of the fund; make entry in General Cash Book; show Petty Cash Book with June disbursements recorded.

Close Cash Book, do all posting to date.

Make an entry in the Journal debiting Income from Book Fund and crediting Surplus Invested in Books, Art and Music with the total cost of books, art and music bought during the year. The amount so invested is found by deducting the balance in the Dayton National Bank less the balance of the Lost Books Fund, from the Income from Books Fund. Post the entry just made.

Take a trial balance, after which the following are required:

(a) Statement of Income and Expenditure for the year ended June 30, 1910. Take into account unexpired insurance, \$100. Balance of Income from Book Fund appears in the Balance Sheet and not in Statement of Income and Expense.

(b) Balance Sheet as of June 30, 1910. (List all assets at their Ledger valuation; this does not take into account depreciation on the fixed assets, and a footnote should be shown on the Balance Sheet calling attention to this fact.)

(c) Summarized Statement of Cash Receipts and Disbursements.

The above exhibits are for publication as the Report of the Treasurer of Clark Library for the year ended June 30, 1910. They should be prepared with great care.

In a formal report for publication, it is customary to write an introductory statement addressed to the proper authorities and signed by the treasurer, calling attention to the contents of the report. See page 57 for suggestions.

MISCELLANEOUS EXERCISES

1. Make entries to close the Ledger of the Clark Library, post them, and rule Ledger accounts.
2. Find yearly per cent of income realized from Book Fund Investment; from Aid Funds Investment.

3. Prepare bank statement of the Merchants Trust Company received June 3. (Envelope system.) You find that three of the checks issued during May were not returned by the bank. How do you account for this? Prepare a Reconciliation of Bank Statement. Why is such a statement prepared?

4. Journalize the following: October 3, the Deerfield Library received a cash gift of \$5000 from Patrick L. Sullivan, the income to be used for the purchase of standard Catholic books. October 16, the money was invested in stock of the Commercial National Bank, at \$260 per share. December 1, a quarterly dividend of 3% was received on the bank stock.

How much of the Sullivan fund remains uninvested?

5. Design pay roll for Clark Library according to the following specifications:

Size of form, 8" x 10½".

Horizontals:

1½" top edge to double red.

½" to next double red.

⅜" double red to first faint line.

19 additional faints.

⅜" from last faint to single red.

½" single red to double red.

Perpendiculars:

1" left edge to double red. (Binding space.)

2" from double red to next double red. (Name.)

1¼" double red to next double red. (Period.)

½" double red to single red } (Monthly rate).

¼" single red to double red }

½" double red to single red } (Amount Received).

¼" single red to double red }

2" double red to right edge. (Signature.)

The heading of the pay roll should be:

CLARK LIBRARY
DAYTON, OHIO

Pay roll for.....Ending.....191..

Check No.....

Cash Book.....

Circular holes should be punched in the binding space at the left so that the pay roll can be inserted in a National Ring Binder.

6. (a) From the following schedule of monthly salaries paid by Clark Library, make out the pay roll for April 15 on the pay roll blank which you designed.

Henry W. Cutter, Librarian.....	\$180.00
Nellie Vining, Librarian, Forest Park.....	60.00
Florence Wright, Forest Park Asst.....	40.00
Mary E. Martin.....	50.00
Harriet W. Cobb.....	50.00
Bertha M. Wood.....	35.00
Alice C. Damon.....	40.00
Fannie N. Bell.....	35.00
Hazel Baxter.....	40.00
Anna J. Walsh (F. P.).....	20.00
Charles W. Childs, Treasurer.....	41.66
William Dewey, Janitor.....	75.00
Frank W. Merrill, Asst. Janitor.....	40.00

(b) Prepare a memorandum to give to the bank teller with the pay roll check showing the number of bills and coins of different denominations required to make up the pay envelopes.

7. In order to save time in posting and to economize space in both the Cash Book and Ledger, as well as to aid in systematizing the accounts, the larger libraries often have Cash Books with special columns designed for their particular use. Instead of posting separate items to the Ledger, as is necessary in a Cash Book of ordinary ruling, the totals of the special columns are posted at the end of each month.

The following form of a special column Cash Book, which you are asked to design from the specifications given, is a form recommended by the Wisconsin Free Library Commission for use in the libraries of that State.

Use a sheet of semi-ruled paper heading the left page Cash Receipts and the right page Cash Disbursements.

Horizontals:

Provide for a space at the top of each page in which to letter the headings of the columns, by ruling two pairs of double red lines two spaces apart.

Perpendiculars: (Receipts.)

$\frac{1}{2}$ " left edge to single red	} Date
$\frac{1}{4}$ " single red to double red	
$\frac{1}{2}$ " double red to next double red. (Voucher No.)	
$2\frac{1}{4}$ " double red to next double red. (Name of Account.)	

From double red to right edge, rule 7 money columns, $\frac{1}{2}$ " allowed for dollars, $\frac{1}{4}$ " for cents, the columns to be headed respectively, Balance, City Appropriation, Fees, Fines, Cash Gifts, Other Sources, Total Receipts.

Perpendiculars: (Disbursements.)

Beginning at left edge, rule 11 money columns, dimensions same as on "Receipts" side, heading the columns respectively, Total Disbursements, Books, Periodicals, Binding, Salaries, Rent, Heat and Light, Repairs and Improvements, Supplies, Printing, Postage, Sundries.

8. Write rules for debiting and crediting the accounts found in the supplementary list on page 49.

9. As librarian of the Rutland Free Library, prepare a budget of estimated expenditures for the year 1913 to present to the City Council in support of a request for an appropriation of \$9000. The budget should show estimates for Books, 20%; Periodicals, 3.5%; Binding, 3%; Salaries, 37.3%; Heat and Light, 9.2%; Repairs, 2%; Permanent Improvements, 3%; Insurance, 1.8%; Library Supplies, 2.6%; Janitor, 5.8%; Incidentals, 11.79%.

BIBLIOGRAPHY

Wisconsin Library Bulletin, September, 1910, Forms for Financial Reports; September-October, 1912, Library Appropriations, Budgets and Business Methods.

The American Public Library, Arthur E. Bostwick, Ph.D., pp. 23-26, 206-14, 253-69.

Library Association Record, August, 1906. What Should an Annual Report of a Public Library Contain?

Library World, January, 1908. Cash Receipts and Petty Cash.

Public Libraries, January, 1905. Hints on Library Accounts, December, 1911. Budgets for Libraries.

California Library Association Handbook and Proceedings, 1909. Uniform Business Methods.

The Science of Accounts, by H. C. Bentley, C. P. A. Chapter XLVI. Ronald Press Co., 20 Vesey Street, New York, N. Y.

Cost Accounting for Institutions, by William Morse Cole. Ronald Press Co., 20 Vesey Street, New York, N. Y.

EXERCISES IN PREPARING TREASURERS' REPORTS

Business and professional men, because of their prominence and wide acquaintance in a social and business way, are often chosen to be treasurers of various institutions, such as societies, clubs, hospitals, libraries, etc. For the reason that the clerical work connected with such an office is generally done by the private secretary, it is desirable that her training include some practice in keeping the necessary accounts and in the technique and arrangement of a treasurer's report.

It is the general practice of such institutions to require the treasurer to submit a report at the annual meeting and as a rule the report is printed as a part of the annual report of the institution. If the treasurer's books are kept by single entry the only book that would probably be kept would be a simple Cash Book; the report of the treasurer in such cases would consist of nothing more than a condensed statement of cash receipts and disbursements for the year. If the books are kept by double entry, however, with Ledger accounts for all assets and liabilities and with the various divisions of income and expense, the report of the treasurer would, as a rule, consist of a Statement of Income and Expense for the year and a Balance Sheet.

In general, the report of a treasurer consists of a statement in the form of a letter addressed to the proper authorities and signed by the treasurer. If the report is short, as, for example, if it consists of only a statement of cash receipts and disbursements, the more common practice is to embody the technical part of the report in the letter which is submitted, the signature coming at the end. If, on the other hand, the report consists of two or more separate schedules, it is preferable to open the report with a short presentation letter properly signed, the letter being followed by the several financial schedules that go to make up the remainder of the report.

Following are model forms of introductions to actual printed reports which will give some idea of the standard wording and arrangement of such reports as they appear in practice. These will serve as suggestions to the student in compiling the reports required in the several exercises that follow.

INTRODUCTIONS TO TREASURERS' REPORTS

Women's Educational and Industrial Union

REPORT OF THE TREASURER

To the Board of Government,

Women's Educational and Industrial Union:

I have the honor to present the thirty-third annual report of the Treasurer, together with the Auditor's report for the year ending September 30, 1911.

HELEN PEIRCE, *Treasurer.*

Amherst, Mass., July 31, 1912.

To the Trustees of Amherst College:

The Treasurer herewith presents a report of the financial condition of the College at this date and of the financial transactions for the fiscal year ending this day.

Respectfully submitted,

HARRY W. KIDDER, *Treasurer.*

New York, December 18, 1912.

To the Members of the New York Athletic Club,

Gentlemen:

The Financial Statement of the Club, which is herewith submitted to you, presents in full detail the report for the fiscal year ending November 30, 1912.

Respectfully submitted,

MARTIN S. PAINE, *Treasurer.*

Approved:

LOUIS BENDER,

ROBERT H. GOFFE,

WILLIAM L. MILLER,

} *Committee on Auditing.*

REPORT OF THE TREASURER FOR THE YEAR ENDED JANUARY 30, 1912

To the Corporation of Simmons College:

I have the honor to present the eleventh annual report of the Treasurer, together with the report of the Auditing Committee for the year ended January 30, 1912.

Boston, September 4, 1912.

ROBERT T. PAINE, 2d, *Treasurer.*

The Catholic Union of Boston
REPORT OF THE TREASURER FOR THE YEAR ENDING APRIL 1, 1911
 (Body of Report.)
 (Signed) J. B. KELLEY, *Treasurer.*

Clark Library
 Office of the Treasurer

Dayton, Ohio, June 30, 1910.

To His Honor the Mayor and the City Council,
Sirs:

I herewith submit my seventh annual report as Treasurer of Clark Library, as follows:

Exhibit A — Balance Sheet, June 30, 1910.

Exhibit B — Statement of Income and Expenditure for the year ended June 30, 1910.

I believe the above exhibits give a true and accurate report of the financial condition of the Clark Library.

Respectfully submitted,

(Signed) CHARLES W. CHILDS, *Treasurer.*

EXERCISE 13
Arlington Tuesday Club

TREASURER'S REPORT

The Arlington Tuesday Club is a woman's club founded in 1897 "to promote ethical, social and intellectual culture." The membership of the club is limited to three hundred members, all of whom must be residents of Arlington. The annual membership dues are \$5, with an entrance fee of \$2 additional for new members. The financial year ends May 31, on which date the annual meeting is held, unless the 31st should fall on Sunday, in which case the annual meeting would be held June 1.

The officers of the club consist of a President, three Vice-Presidents, a Secretary, Treasurer, Auditor, and a Board of Twelve Directors. These officers constitute the Executive Committee and have charge of all the affairs of the club.

The duties of the Treasurer are set forth in the By-laws as follows:

"The Treasurer shall receive, collect, hold, and pay out all moneys subject to the orders of the club. She shall keep a complete and accurate account in detail of all moneys received and expended by her, and shall pay only those bills which are approved by the Executive Committee. She shall procure a voucher for all payments made and shall file all vouchers in such a manner as to make them easy of inspection by the Auditor. She shall issue tickets of membership which shall constitute a receipt for the annual dues. She shall render a complete report in writing of all cash receipts and disbursements at the annual meeting."

According to the By-laws, the Auditor's duties are to "audit the Treasurer's accounts, ascertain that all payments have been properly authorized, examine vouchers for all payments and present at the time of the annual meeting a certificate setting forth the extent of the audit."

As Treasurer of the club, you have kept a Cash Book in which you have recorded all cash received and expended. You have deposited all cash received except a small amount kept on hand to pay bills which could not conveniently be paid by check. The Executive Committee has agreed to accept canceled checks as sufficient vouchers for bills paid by check in case receipted bills were not obtainable. You have procured vouchers from persons receiving the money for all payments made in currency.

The Cash Book shows receipts and payments for the year as follows:

Cash on hand June 1, 1911, \$356.48. The 258 members all paid their annual dues, there being seven new members admitted during the year and included in this number. Certain classes were conducted during the year for the benefit of members, a nominal charge being made to help defray expenses. These classes and receipts from each were as follows: Physical Culture, \$129.50; Literature, \$73; History and Travel, \$20. The sale of tickets for the annual guest night amounted to \$107. The income from the May Breakfast held at the Vendome given in honor of the retiring

President amounted to \$139. Contributions to the Endowment Fund received from members during the year amounted to \$101.50. The sale of tickets for the lecture given to raise money for the District Nurse amounted to \$107.10. Received during the year for rent of piano from various societies and clubs using the same hall, \$123; for rent of stereopticon, \$42. Sale of Federation Bulletin and Year Books, \$1.50. Interest on bank balance, \$9.42.

The club rooms are located in Wentworth Hall, for which a yearly rental of \$249 is paid, including janitor's service. Paid to lecturers during the year, \$295.50. The expenses of conducting the Physical Culture class were \$100.50; Literature class, \$128; History and Travel class, \$20. Teas were served during the year at a total cost including service of \$192.78. The expenses of the annual guest night were \$228.45; children's day, \$45.41; for lecture for District Nurse Fund, \$17.10; May Breakfast, \$148.57. State and general Federation fees, \$39.35. Expenses of delegate to the annual Convention of Women's Clubs, \$12.40. Paid into Endowment Fund, \$125. Contributed to Massachusetts Forestry Association, \$5; to Massachusetts Civic League, \$5; to Society for Moral Education, \$2; to charity, \$100. Printing and Postage, \$153.42. Refund of dues, \$15. Telephone, \$18.80. Federation bulletins, \$2. Repairs as follows: Piano, \$59; box scenes, \$24; lantern, \$2.10.

Prepare Treasurer's report in a form ready for the printer for the year ending May 31, 1912.

EXERCISE 14

Dartmouth Dining Association

TRIAL BALANCE, JUNE 30, 1911

Cash.....	\$133.35	
Accounts Receivable.....	1,056.49	
Food Inventory (July 1, 1910).....	812.75	
Fuel Inventory (July 1, 1910).....	65.00	
Advances from Dartmouth College.....		\$1,500.00
Accounts Payable.....		300.00
Meal Coupons Unredeemed.....		153.37
Food Purchases.....	59,988.41	
Fuel Purchases.....	1,301.68	
Wages — General.....	12,918.65	
Wages — Student Help.....	12,501.51	
Salary of Manager.....	1,000.00	
Laundry.....	1,474.00	
Printing and Postage.....	836.50	
Telephone and Telegrams.....	192.77	
Water and Ice.....	822.11	
Heating and Lighting.....	2,360.43	
Rent.....	1,800.00	
Repairs and Renewals.....	4,370.29	
Board — Dining Room.....		55,708.26
Board — Grill Room.....		36,716.57
Training Table.....		2,386.21
Banquets.....		3,789.06
Miscellaneous Income.....		1,080.47
	<u>\$101,633.94</u>	<u>\$101,633.94</u>

Inventories, June 30, 1911:

Food.....	\$900.00
Fuel.....	100.00

The following is required:

The report of the manager for the year, addressed to the Treasurer of Dartmouth College, consisting of a Statement of Income and Expense and a Balance Sheet.

EXERCISE 15

University Club of Boston

TRIAL BALANCE DECEMBER 31, 1910

Club House and Land.....	\$148,000.00	
Furniture and Furnishings.....	8,000.00	
Tableware and Linen.....	2,515.00	
Room Linen.....	250.00	
House Linen.....	200.00	
Art and Library.....	1,000.00	
Cash.....	625.58	
Accounts Receivable.....	7,171.72	
Mortgages Payable.....		\$85,000.00
Second Mortgage Bonds.....		45,000.00
Notes Payable.....		6,500.00
Accounts Payable.....		6,940.69
Subscription Fund for Entertainments.....		407.42
House Committee Fund.....		230.79
Music Fund.....		23.85
Restaurant, Wine and Cigars, Purchases.....	57,688.38	
Restaurant, Wine and Cigars, Sales.....		74,855.43
Restaurant and Bar Service.....	13,653.50	
Board of Restaurant and Bar Help.....	5,280.00	
Liveries of Restaurant and Bar Help.....	693.00	
Billiards, Cards and Rooms, Income.....		4,682.55
Billiards, Cards and Rooms, Supplies.....	144.00	
Billiards, Cards and Rooms, Service.....	649.50	
Board of Billiards, Cards and Rooms Help.....	192.00	
House Service.....	12,003.90	
Board of House Help.....	4,068.00	
Liveries of House Help.....	392.95	
House Supplies, Miscellaneous.....	5,792.05	
Periodicals.....	494.77	
Heating.....	1,336.72	
Lighting.....	2,485.51	
Office Expenses.....	1,350.00	
Insurance.....	821.08	
Water Tax.....	221.50	
Taxes.....	2,558.40	
Entertainments.....	1,331.27	
Interest on Mortgage and Second Mortgage Bond.....	2,914.58	
Interest on Notes Payable.....	40.69	
Art and Library Expense.....	274.51	
Interest on Bank Deposit.....		284.75
Membership Dues.....		41,135.00
Entrance Fees.....		1,525.00
Repairs and Renewals.....	8,308.45	
Surplus, January 1, 1910.....		23,871.58
	<u>\$290,457.06</u>	<u>\$290,457.06</u>

Supplies on Hand: Restaurant, Wine and Cigars Department, \$4,604.74. Unexpired Insurance, \$536.54. Interest accrued on Mortgage and Bond to December 31, \$2,531.25. Included in the Accounts Receivable is \$180 due from ex-members which is regarded as non-collectible.

You are required to prepare the following:

Treasurer's report consisting of

(a) Statement of Income and Expenses for the year, The Net Income or the Net Loss should be shown separately for the Restaurant, Wine and Cigar Department and for the Billiards, Cards and Rooms Department.

(b) Balance Sheet.

Prepare also Closing Entries and explain the function and use of the following accounts: Surplus, Subscription Fund for Entertainments, Music Fund, Second Mortgage Bonds.

EXERCISE 16

Chicago Club

TRIAL BALANCE, OCTOBER 31, 1914

Cash in Banks.....	\$19,137.60	
Cash in Office.....	27.69	
Petty Cash Fund.....	125.00	
Debenture Sinking Fund (State Street Savings Bank).....	5,412.31	
Accounts Receivable:		
House Accounts.....	16,154.56	
Annual Dues.....	780.00	
Assessments Unpaid.....	258.00	
Furniture and Furnishings.....	12,310.18	
Linen, China and Glassware.....	3,912.57	
Interior Alterations.....	9,295.68	
Accounts Payable.....		\$6,295.76
Debentures.....		20,000.00
Reserve for Doubtful Accounts.....		70.71
Restaurant Income and Expense.....		16,068.56
Bar Income and Expense.....		8,000.57
Cigars Income and Expense.....		4,160.95
Billiards Income and Expense.....		1,827.66
Rooms Income and Expense.....		1,839.56
Annual Dues.....		78,360.00
Entrance Fees.....		4,230.00
Interest on Bank Balances.....		548.62
Cash Variations.....		53.23
Boot Black Stand (net).....		176.80
House Wages.....	16,528.06	
Board of House Employees.....	9,831.57	
House Expense.....	6,865.57	
Fuel.....	3,729.66	
Rent.....	9,000.00	
Stationery and Printing.....	1,342.72	
Expenses of Secretary's Office (including Secretary's Salary, \$3500)...	6,632.80	
General Office Expenses.....	3,112.14	
Lighting.....	3,142.58	
Repairs and Renewals.....	8,543.80	
Telephone.....	178.11	
Newspapers and Periodicals.....	217.76	
Insurance.....	1,452.36	
Interest on Debentures.....	500.00	
Membership Committee Expenses.....	112.60	
Executive Committee Expenses.....	445.25	
Entertainment Committee Expenses.....	9,415.82	
Publicity Committee Expenses (including Expenses of printing monthly club bulletin).....	2,276.45	
Reserve for Depreciation of Furniture and Furnishings.....		395.70
Surplus.....		8,712.72
	<u>\$150,740.84</u>	<u>\$150,740.84</u>

An analysis of the Income and Expense account of each of the five income-producing departments of the club for the years 1914 and 1913 shows the following:

	1914	1913
Restaurant		
Purchases.....	\$79,449.71	\$73,614.75
Wages.....	37,926.56	37,079.57
Board of Employees.....	15,956.25	17,047.24
General Expenses.....	7,089.12	6,591.75
Gross Revenue:		
Members.....	128,514.13	112,639.80
Board of Employees.....	27,976.07	27,377.46
Bar		
Purchases.....	\$11,295.68	\$10,972.57
Wages.....	2,775.01	2,778.73
Board of Employees.....	1,208.75	1,203.50
General Expenses.....	1,208.97	1,046.62
License.....	750.00	500.00
Revenue.....	25,238.98	23,106.35
Cigars		
Purchases.....	\$16,183.17	\$14,203.30
Expenses.....	20.62	25.69
Revenue.....	20,364.74	17,490.50
Billiards		
Wages.....	\$1,095.47	\$763.01
Board of Employees.....	638.15	447.50
General Expenses.....	43.47	8.60
Revenue.....	3,604.75	3,216.90
Rooms		
Wages.....	\$712.60	\$316.20
Laundry.....	676.25	247.56
Board of Employees.....	341.35	193.06
Revenue.....	3,569.76	3,092.30

General Comments

The Chicago Club was organized in 1905 by a number of representative citizens of Chicago. The purpose of the club as set forth in its by-laws is "to bring together in a social way men interested in promoting the welfare of the City of Chicago; to provide a club house where members may meet informally each day; and to arrange frequent meetings at which prominent speakers may be heard, and questions of civic interest discussed."

The club is in every respect a democratic organization, any resident of Chicago being eligible for membership, regardless of nationality, religious views, or political persuasion, if in the judgment of the Membership Committee an applicant for admission is qualified to promote the purposes of the club.

The membership is limited to three thousand, the dues being \$20 per year payable in advance; the entrance fee is \$15.

The club is managed by a Board of Governors consisting of twenty-four members, eight of whom are elected each year for a period of three years. The officers of the club are a President, Vice-President, Secretary and Treasurer, all of whom are elected by and from the Board of Governors. An Executive Committee, Membership Committee and such other committees as may be deemed advisable are also chosen by the Board of Governors from its own members.

The fiscal year of the club ends October 31st; the annual meeting of the members is held on the third Monday in November of each year. At each annual meeting the Treasurer presents a detailed statement of the financial condition of the club, which must be accompanied by the certificate of an auditor appointed yearly by the Board of Governors.

Comments Bearing upon the Financial Statements

INVENTORIES OCTOBER 31, 1914

Restaurant.....	\$1,465.34
Bar.....	2,300.56
Cigars.....	1,259.47
Stationery on hand.....	75.00
Fuel.....	1,400.00

To provide for depreciation, 10% of the cost of furniture and furnishings is to be added to the Reserve for Depreciation of Furniture and Furnishings. As all replacements of china, glassware and linen are charged to the Repairs and Renewals account, no reserve for depreciation of this account has ever been set up. It is decided, however, to reduce the Ledger valuation of the account to \$3500, and to carry it at that amount from this on.

To make provision for uncollectible accounts of members, 1% of the House Accounts Receivable is added to the Reserve for Doubtful Accounts.

Unexpired insurance amounts to \$874.90; unexpired bar license, \$248; wages accrued but not due are as follows: Restaurant, \$560.52; bar, \$38.60; billiards, \$12.25; rooms, \$9.20; house, \$197.26.

Bills for the annual dues are mailed about October 15 and are payable on or before November 10. On October 31, 929 members had paid their dues for 1915, the amount thus received having been credited to Annual Dues.

Because of the moderate dues charged for membership in the club, and because the Board of Governors were anxious to first establish the club on a sound financial basis, it was decided not to make any plans for a club building for a few years. During this period the policy of the club would become established, some idea of the income which could be expected from the several departments could be obtained, the membership would become settled, and sufficient time could be given to selecting a site and planning a building. The club accordingly took a ten-year lease of a three-story building which had formerly been used as a small hospital, at a yearly rental of \$9000. The first two floors comprise the club rooms proper, consisting of lounging room, reading room, library, writing room and dining rooms, while the third floor was made over into suites and single rooms which are rented to members. The expense to the club of making the necessary alterations and improvements previous to occupancy was \$15,492.80 which was charged to Interior Alterations. This account is being written off over the period of the lease at an annual rate of 10% of the original cost.

November 1, 1910, \$20,000 of Debentures were issued bearing interest at 5% per annum and maturing November 1, 1920, interest payable May 1 and November 1. The Debentures contain a Sinking Fund clause requiring the Board of Governors or a Sinking Fund committee appointed by the Board to authorize the Treasurer to deposit annually in the State Street Savings Bank such an amount as will equal the par value of the Debentures at maturity, interest on the payments into the fund being compounded semi-annually at 4%. The annual payment into the fund as determined from Sinking Fund Tables amounts to \$1665.84, which payment is always made immediately preceding the close of the fiscal period. Make entry for the payment of October 31, 1914. On the same date, an amount sufficient to meet the interest coupons due November 1 is deposited in the Lincoln National Bank, at which bank the interest is payable, and you are required to make the necessary entry.

The following are required:

- (a) Adjusting entries and adjusted trial balance.
- (b) Your report as Treasurer to the Board of Governors, consisting of the following:
 - Presentation letter.
 - Exhibit A, Balance Sheet.
 - Exhibit B, Income and Expense Statement.
 - Exhibit B, Schedule I, Comparative Departmental Operating Statement for 1914 and 1913, showing percent of increase or decrease.
- (c) Closing entries.

EXERCISE 17

Women's Educational and Industrial Union

TRIAL BALANCE SEPTEMBER 30, 1911

Cash:

In Bank.....	\$6,431.20	
Advanced to Departments.....	369.50	
Accounts Receivable.....	14,383.09	
Furniture and Equipment:		
264 Boylston Street.....	8,100.84	
New England Kitchen.....	3,009.22	
Law and Thrift Fund Investment.....	4,580.20	
Emergency Loan Fund:		
Cash on Deposit.....	2,182.33	
Loans Outstanding.....	678.50	
Securities Owned.....	6,295.00	
Accounts Payable.....		\$23,534.75
Emergency Loan Fund.....		2,860.83
International Trust Co. Trustee Fund.....		5,000.00
Law and Thrift Fund.....		4,580.20
Investment Fund.....		6,295.00
Caroline A. R. Whitney Fund.....		10,000.00
Union Benefit Fund.....		238.80
Deficit, September 30, 1910.....	9,764.54	
Lunch Room Sales.....		96,013.09
New England Kitchen Sales.....		110,444.28
Food Shop Sales.....		91,151.07
Handwork Shop Sales.....		38,921.34
Millinery Sales.....		11,683.93
Children's Clothing Sales.....		7,926.11
Dressmaking Sales.....		3,451.83
Salesmanship Course Income.....		100.00
Appointment Bureau Income.....		3,159.84
Research Department Income.....		669.75
Law and Thrift Income.....		336.56
Social Work Income.....		960.75
Lunch Room Purchases.....	47,407.86	
New England Kitchen Purchases.....	57,060.31	
Food Shop Purchases.....	66,154.27	
Handwork Shop Purchases.....	30,289.45	
Millinery Purchases.....	4,401.81	
Children's Clothing Purchases.....	2,412.50	
Dressmaking Purchases.....	1,732.18	
Lunch Room Wages.....	26,947.73	
New England Kitchen Wages.....	31,829.20	
Food Shop Wages.....	11,370.45	
Handwork Shop Wages.....	4,419.32	
Millinery Wages.....	4,232.48	
Children's Clothing Wages.....	4,495.16	
Dressmaking Wages.....	3,541.38	
Salesmanship Salaries.....	3,230.60	
Appointment Bureau Salaries.....	5,079.07	
Research Department Salaries.....	4,871.25	
Law and Thrift Salaries.....	1,593.06	
Social Work Salaries.....	5,093.19	
Donations and Bequests.....		19,670.38

TRIAL BALANCE — Continued

Membership Fees.....		4,221.50
Interest and Income on Investments.....		413.60
Extraordinary Income.....		226.25
Stationery and Printing.....	2,203.58	
Repairs and Renewals.....	4,233.96	
Delivery and Express Charges.....	4,691.62	
Laundry.....	2,060.92	
Fuel.....	4,575.63	
Ice.....	1,091.20	
Packing Supplies.....	1,739.48	
Publication Charges.....	826.98	
Postage and Advertising.....	489.59	
Legislative Committee.....	124.66	
Hospitality and Befriending.....	294.58	
General Administrative Expense.....	6,873.81	
Rent.....	15,000.00	
Light.....	4,612.60	
Salaries.....	20,622.48	
Lecture Committee.....	463.08	
	<u>\$441,859.86</u>	<u>\$441,859.86</u>

The inventories at the beginning of the year are included under purchases. Inventories, September 30, 1911, are as follows: Lunch Room, \$1912.60; New England Kitchen, \$1327.56; Food Shop, \$1012.92; Handwork Shop, \$3927.56; Millinery Shop, \$127.35; Children's Clothing, \$185.90; Dressmaking, \$101.17.

Accruals and supplies on hand to be taken into account in preparing necessary statements are as follows: Interest on securities owned, accrued, but not due, \$62.50; stationery, \$501.50; packing supplies, \$411.75; approximately 30 tons of coal which cost \$7.25 per ton; Union publications estimated at approximate cost, \$525.

The Union owns the land and building known as 264 Boylston Street, which cost with improvements, \$186,356.30 on which the Provident Institution for Savings holds a mortgage for \$68,000 bearing $4\frac{1}{2}\%$ interest. The property is managed by a Board of Trustees and all accounting connected with the property is taken care of by the Board, which renders a report annually to the Union.

Two funds known as the Permanent Fund and the Catherine P. Perkins Fund are each in the hands of a Board of Trustees, showing investments of \$34,302.18 and \$9667.75 respectively. The accounting connected with each fund is done by the Board of Trustees.

Prepare Treasurer's report consisting of the following:

- (a) Schedule showing gross income from the seven industrial departments; also a schedule showing the net cost of maintaining the five social and educational departments.
- (b) Statement of Income and Expense.
- (c) Balance Sheet.

EXERCISE 18

LAWYERS' ACCOUNTS

General

It is true of lawyers, generally speaking, as of other professional men, that they are lax in keeping their accounts and too often manage to get along with irregular, incomplete and unscientific methods. In no profession, however, is there greater need of care and regularity in the keeping of accounts than in the legal profession. This is especially true of lawyers who in addition to their general law practice manage estates, act as executors and administrators and hold funds of clients in trust. Any laxity in the keeping of accounts in such cases may result in the mingling of entirely distinct funds, in the inability to account accurately for the income derived from each fund, and in the misappropriation of money thus held in trust.

In order to avoid any complications which may arise as a result of unsound methods and to be able to render promptly a true and accurate accounting of the affairs of a client, it is essential that the system of bookkeeping be carefully planned and operated. From such a system a lawyer can in addition easily obtain full details concerning his income from all sources and his professional expenses, as well as properly classified comparative reports on the trend of his business, and, in fact, any information desired on any matter connected with his finances. Finally, it is difficult for a great many people to understand that the more scientific and orderly the method of bookkeeping, the more simple it is and the less time it requires for clerical work. This is in itself a sufficient reason for the introduction of sound methods of account keeping.

In order that the student may acquire some knowledge of the books and accounts peculiar to a law business, a brief outline is given herewith of the books kept by a representative law firm which appreciates the importance of good accounting. A list of the General Ledger accounts kept by this firm is also given, with rules governing the use and function of each account. This is followed by an exercise in preparing a statement of income and expense and a balance sheet from a trial balance taken from their General Ledger.

The firm is an old-established firm consisting of four members and is engaged in a general law practice. A large number of trust estates are managed by the firm, but the accounts of each estate are kept in a separate set of books and a separate bank account is kept with each. This separation of all money handled not only simplifies the accounts, but avoids any possible reflection upon the manner of discharging the trust. Only the books and accounts associated with their general law practice are considered at this time.

BOOKS OF ACCOUNT

The main books consist of a Cash Book, Petty Cash Book, Bill Journal, Journal, General Ledger and a Clients' Ledger. The less important books and records include check books, letter press copy books, a blotter for each member of the firm, a collections docket, a trial balance book and an investments record.

These books are described in detail as follows:

Cash Book:

The debit side of the Cash Book contains three money columns headed respectively, "Accounts Receivable," "Clients' Cash Suspense" and "Net Receipts"; the credit side contains money columns for "General Expense," "Clients' Cash Disbursements" and "Net Payments." All cash received from clients in payment of amounts for which they have previously been charged is credited to the clients' accounts, the amount received being entered in the "Accounts Receivable" column. Cash received from clients as retaining fees at the time a case is accepted by the firm is credited to the client's account and the amount entered in the "Clients' Cash Suspense" column; receipts from all other sources, such as income from investments, interest on bank balances and annual retaining fees, are credited to the proper account and entered in the "Net Receipts" column.

All cash received is deposited in the name of the firm daily, a rubber stamp being used for endorsements on checks. All disbursements are by check signed by a member of the firm. Purchases of incidental supplies and small disbursements which can conveniently be made only in currency are made from a petty cash fund which will be described hereafter. All checks issued in payment of general expenses are entered in the "General Expense" column; payments made on account

of clients should be charged to the client's account and entered in the "Clients' Cash Disbursements" column; this includes legal supplies, notary's fees, publication of legal notices, traveling expenses, accountants' fees, etc. Disbursements, for all other purposes, are entered in the "Net Payments" column.

The Cash Book is closed at the end of each month, the balance being carried forward to a new page. At this time the total of the "Accounts Receivable" column is posted to the credit of the Accounts Receivable account in the General Ledger; the total of the "Clients' Cash Suspense" column, to the credit of that account in the General Ledger; the total of the "Clients' Cash Disbursements" column, to the debit of the Clients' Cash Disbursements account; the total of the "General Expense" column, to the debit of the General Expense account. The posting to the credit of the several clients' accounts in the Clients' Ledger, from the "Accounts Receivable" column, the posting to the debit of the proper accounts in the Clients' Cash Disbursements section of the, Clients' Ledger of all items entered in the "Clients' Cash Disbursements" column, and the posting to the credit of the proper accounts in the "Clients' Cash Suspense" section of the Clients' Ledger, is done from time to time during the month; the same is true of all items in the "Net Receipts" and "Net Payments" columns.

Petty Cash Book:

An amount sufficient to provide for all currency disbursements is kept as a petty cash fund and is in charge of the bookkeeper. The cash is kept in a cash box entirely apart from the general cash. Payments from this fund include such items as postage, incidental office supplies, cleaning and cleaning supplies, repairs to typewriters and other office appliances, car fares, etc. The bookkeeper is expected to obtain a voucher for all payments made from the fund. All payments from this fund are recorded in the Petty Cash Book which contains space for the date and particulars, and money columns for "Amount Received," "Law Stationery and Postage," "General Expense," "Office Supplies" and "Miscellaneous." At any time during the month the sum of all payments as shown by the Petty Cash Book and supported by the vouchers on file, plus the amount in the cash box, should equal the amount of the fund. At the close of the month a summary is made of all disbursements for the month showing the proper accounts to be charged, and turned over to a member of the firm together with the vouchers, for his inspection and approval. A check is then drawn for the sum of the disbursements and converted into currency which thus restores the fund to its original amount. At this time an entry is made in the Cash Book charging the proper accounts for the disbursements of the month. The vouchers are then filed permanently in a suitable file provided for that purpose.

Bill Journal:

Entries in this book are in the form of abstracts of all bills rendered to clients. It contains columns for Date, Name of Client, Address, Bill No., and Folio, Fees, Clients' Cash Disbursements, Clients' Cash Suspense, and Accounts Receivable. Three Ledger folio columns are provided preceding the client's name, headed respectively, A. R. Folio (Accounts Receivable), C. C. D. Folio (Clients' Cash Disbursements), and C. C. S. Folio (Clients' Cash Suspense). In the column headed "Bill No. and Folio" are entered the serial numbers of the bill and the page in the press copy book, on which a copy of the bill may be found.

In billing a client, the stenographer first enters the fee charged in accordance with a memorandum made by a member of the firm in the blotter provided, or from oral instructions; she then ascertains from the bookkeeper whether the firm has disbursed any cash which has been charged to the client's account; also, whether the client paid a retaining fee at the time the case was taken. Any cash disbursements are entered on the bill as an additional charge to the client, a retaining fee being entered as a credit. The net amount of the bill shows the amount due the firm from the client.

An abstract of the bill is then entered in the Bill Journal, the amount of the fee being entered in the "Fees" column; additional charges, in the "Clients' Cash Disbursements" column; the retaining fee, in the "Clients' Cash Suspense" column; and the net amount due, in the "Accounts Receivable" column. By this means, when the client is billed, his account in the "Clients' Cash Disbursements" section of the Clients' Ledger, and in the "Clients' Cash Suspense" section is closed, and the net result carried to his account in the "Accounts Receivable" section of the Ledger.

At the close of the month, the total of the " Fees " column is posted to the credit of the Fees account, the total of the " Clients' Cash Disbursements " column to the credit of " Clients' Cash Disbursements " account, the total of the " Clients' Cash Suspense " column to the debit of that account, and the total of the " Accounts Receivable " column to the debit of the Accounts Receivable account. The separate charges to clients' accounts entered in the " Accounts Receivable " column are posted during the month to the debit of the proper accounts in the Clients' Ledger; the separate items in the " Clients' Cash Disbursements " column, to the credit of the proper accounts in the proper section of the Clients' Ledger and the separate items in the " Clients' Cash Suspense " column, to the debit of the individual accounts in the section reserved for such accounts in the Clients' Ledger.

Journal:

The Journal is used for entries for which no other book is provided, such as adjustments, notes received from clients, the writing off of bad accounts, closing entries, and for memoranda of an historical nature relating to the financial affairs of the firm. An entry is posted from the Journal as soon as it is made. Any entry which affects a client's account must be posted to the proper account in the Clients' Ledger and to the controlling account in the General Ledger as well.

General Ledger:

The General Ledger contains all accounts other than accounts with clients, including accounts with assets, liabilities, income and expense. A trial balance is taken from the General Ledger once a month.

Clients' Ledger:

This Ledger is a loose-leaf book divided into three sections, viz.: Accounts Receivable, Clients' Cash Disbursements, and Clients' Cash Suspense. In order to make a proper distinction between the sections and to avoid errors in posting, sheets of a different color are used for each section; white sheets are used for Accounts Receivable; blue, for Clients' Cash Disbursements; and buff, for Clients' Cash Suspense. Each section has a controlling account of the same name in the General Ledger.

The purpose of each section and the instructions for posting to each are given under the description of the Cash Book and the Bill Journal.

A trial balance is taken monthly of each section in order that each may be proved with its respective controlling account.

Check Book:

One bank account is kept with the general law business of the firm. As explained above, deposits are made daily and all disbursements are by check, each member of the firm being authorized to sign checks. Duplicate deposit slips are kept on file. The bank statement is reconciled with the Check Book as soon as received and a copy of the reconciliation made on the reverse side of the check stub. The canceled checks are replaced in the bank statement envelope which is then filed.

Letter Press Copy Book:

Letter press copies are made of all letters written and of all bills issued to clients, separate books being used for this purpose. These books are carefully indexed in order that reference to correspondence or to bills may be easily made.

Blotters:

Each member of the firm has a Blotter, or Day Book, on his desk in which he records memoranda relating to the business of the firm. Some of these may be for his own personal use and others may relate to financial matters such as the data for bookkeeping entries, the book being turned over to the bookkeeper in such cases from which the proper entry is made in the books of account.

Collection Docket:

This is a loose-leaf book containing a full record of each collection placed in the hands of the firm. Each collection is entered on a separate sheet, 5" x 8" in size. Spaces are provided for the names and addresses of the debtor and creditor and for full details concerning the nature of the claim. The lower part of the sheet is provided with columns for the date and amount, the left half showing amounts received from the debtor, and the right half the amounts paid the creditor.

Trial Balance Book:

This is a book for monthly trial balances of the General Ledger accounts. The names of the General Ledger accounts are written but once at the beginning of the year. Twelve pairs of columns for debits and credits are extended to the right, and the monthly figures shown by the trial balance are entered after the trial balance has been taken.

Investment Record:

This book is divided into sections for Stocks, Bonds, Real Estate, Mortgages, Collateral Loans, Miscellaneous. Each section is provided with tabular columns for recording full details of each investment, including interest and dividend rates and dates. A recapitulation section is given in the back of the book which provides a record of the income by months and years from each class of investment.

Following is a list of the General Ledger accounts kept:

Cash.	Salaries and Wages of Office Staff.
Petty Cash.	Rent of Offices.
Accounts Receivable.	General Expense.
Clients' Cash Disbursements.	Loss on Bad Accounts.
Clients' Cash Suspense.	Fees.
Office Equipment.	Annual Retaining Fees.
Library.	Collections.
Investments.	Interest on Bank Balance.
Partners' Capital Accounts.	Income from Investments.
Partners' Drawing Accounts.	Profit and Loss on Securities Sold.
Law Stationery and Postage.	Bond Premium and Discount.
Office Supplies.	Income and Expense.

CASH*Debit:*

At the close of each month with the total receipts for the month.

The balance equals the amount of cash on hand and should agree with the balance as shown by the stub of the check book.

Credit:

At the close of each month with the total disbursements for the month.

PETTY CASH*Debit:*

At the time of establishing the fund with the amount set aside for use in the payment of petty items which must for convenience be paid in currency.

To establish the fund, a check is drawn and converted into currency, an entry being made in the Cash Book charging Petty Cash.

The account is also debited if it is found necessary to increase the fund.

The balance is a debit which represents at all times the amount of the fund.

Credit:

There will be no credits to this account unless it is decided to reduce the original fund.

ACCOUNTS RECEIVABLE*Debit:*

At the close of each month from the Bill Journal with the footing of the "Accounts Receivable" column; this column represents the total charges for the month to the clients' account, less any retaining fee paid at the time the case was taken, as shown by the client's account in the Clients' Cash Suspense section of the Clients' Ledger.

Debit with any charges to clients from the Journal.

The individual accounts with each client in the Accounts Receivable section of the Clients' Ledger are debited as the entries are made.

Credit:

At the close of each month with the total of the "Accounts Receivable" column in the Cash Book, this amount representing the total receipts from clients for the month.

Also credit with notes taken from clients or with any adjustments of clients' accounts for which entries are made in the Journal.

The individual accounts of each client in the Accounts Receivable section of the Clients' Ledger are credited as the entries are made.

The balance is a debit representing the net amount due from clients, and should agree with a trial balance taken from the Accounts Receivable section of the Clients' Ledger.

CLIENTS' CASH DISBURSEMENTS

Debit:

At the close of each month with the total of the "Clients' Cash Disbursements" column of the Cash Book, the individual account with each client in the Clients' Cash Disbursements section of the Clients' Ledger being debited as the entries are made.

Credit:

At the close of each month with the total of the "Clients' Cash Disbursements" column of the Bill Journal, all such accounts being closed into the Accounts Receivable section of the Ledger at the time the client is billed.

The individual accounts are credited at the time an entry is made.

The balance which is a debit represents the total amount due from clients for cash advances made by the firm or for any expenses incurred in connection with the case, and should agree with a trial balance taken from the Clients' Cash Disbursements section of the Clients' Ledger.

CLIENTS' CASH SUSPENSE

Debit:

At the close of each month with the total of the "Clients' Cash Suspense" column of the Bill Journal, the postings to the individual accounts being done as the entries are made.

Credit:

At the close of each month with the footing of the "Clients' Cash Suspense" column in the Cash Book, the postings to the individual accounts being done as the entries are made.

The balance to this account is a credit and represents the total payments made by clients as retaining fees on account of cases still in litigation and for which the client has not been billed. This balance should agree with a trial balance taken from the corresponding section of the Clients' Ledger. The balance shown by the account is a liability of the firm and is so stated in the balance sheet. When a case is completed and a client is billed, his account in the Clients' Cash Suspense section of the Clients' Ledger is closed by means of the entry made in the Bill Journal.

OFFICE EQUIPMENT

Debit:

With the cost of office equipment purchased including desks, tables, filing cabinets, safe, book shelves, typewriters, adding machines, duplicating machines, etc.

Credit:

With cost of office equipment discarded or otherwise disposed of.

The balance of the account represents the cost of office equipment in use and is an asset.

LIBRARY

Debit:

With the cost of law books purchased, and of all law journals bound, at the cost of binding.

The balance of the account represents the cost of the law library and is an asset.

INVESTMENTS

Debit:

With the cost of stocks and the par value of bonds purchased.

A premium or a discount on bonds purchased is debited or credited to a Bond Premium and Discount account which may be closed into the Income and Expense account at the end of the period.

Credit:

With the cost of stocks or the par value of bonds sold.

A profit or loss on the sale of stocks or bonds is credited or debited to an account with Profit and Loss on Securities Sold.

The balance represents the cost of stocks or the par value of bonds owned and is an asset.

PARTNERS' CAPITAL ACCOUNTS

Debit:

With any withdrawal of the amount invested.

Credit:

With the original investment of each member of the firm, with any additions thereto and with each partner's share of the net income of the firm in accordance with the partnership agreement.

The balance of each account represents the net worth of each member of the firm.

PARTNERS' DRAWING ACCOUNTS

Debit:

With all amounts withdrawn by the partners in accordance with the terms of the partnership agreement, and with all personal bills paid from the funds of the firm.

The balance of each account represents at any time the drawings of each partner to date.

LAW STATIONERY AND POSTAGE

Debit:

With the cost of all legal blanks purchased, including deeds, mortgages, leases, wills, etc., with bills for printing letter heads, envelopes, bill heads, and other blanks, and with postage.

At the time of closing the books, an inventory is taken at cost of all legal forms in stock which amount being deducted from the cost of forms purchased during the period shows the amount of forms used, which is closed into Income and Expense.

OFFICE SUPPLIES

Debit:

With all purchases of office supplies, including stenographers' note books, carbon paper, typewriter paper, typewriter ribbons, ink, pens, blotters, eyelets and punches, numbering stamps, dating stamps, mucilage, paper clips, erasers, rulers, shears, etc.

The balance of the account represents the total cost of office supplies purchased and is closed into Income and Expense.

SALARIES AND WAGES OF OFFICE STAFF

Debit:

With salaries and wages paid law clerks, secretaries, stenographers and bookkeepers.

The account is closed into the Income and Expense account.

RENT OF OFFICES

Debit:

Each month with the rent paid for the offices occupied by the firm.

The account is closed into the Income and Expense account.

GENERAL EXPENSE

Debit:

With all items of expense not chargeable to special accounts including telephone, telegrams, insurance on equipment and library, expenses of cleaning offices, subscriptions to law journals, newspapers, traveling expenses not chargeable to clients, dues in law associations, express charges, messenger services, safety deposit drawer, entertainment, repairs to office equipment, electricity, taxes, book-keeping blank books and forms, etc.

The account represents the total general expenses for a period and is closed into the Income and Expense account.

Preparatory to making up a statement of income and expense, the account should be analyzed, the more important items being grouped under their proper heads, and so listed in the statement.

LOSS ON BAD ACCOUNTS

Debit:

With clients' accounts which prove to be uncollectible and which are written off in whole or in part. At the same time credit the clients' account. Such an entry is made in the Journal, the credit being posted both to the individual account in the Clients' Ledger and to the Accounts Receivable account in the General Ledger.

The account is closed into the Income and Expense account.

FEES

Credit:

At the close of each month with the footing of the " Fees " column in the Bill Journal, which amount represents the total fees for the month charged to clients' accounts.

The account is credited also from the Cash Book with all consultation fees and office fees which are paid in cash at the time.

This account represents the main source of income of the firm and is closed into the Income and Expense account.

ANNUAL RETAINING FEES

Credit:

At the close of each month with annual retaining fees received from corporations and individuals for whom the firm acts as general counsel.

The account is closed into the Income and Expense account.

COLLECTIONS

Debit:

With the remittance to a client in settlement of a claim which has been collected by the firm, this amount being the amount collected less the commission charged.

Credit:

With collections, claims, and accounts placed in the hands of the firm by clients.

The balance is a credit which represents the income from collections made by the firm, and is closed into the Income and Expense account.

INTEREST ON BANK BALANCES

Credit:

With interest on the checking account of the firm as shown by the monthly statement received from the bank.

The account is closed into the Income and Expense account at the time of closing the books.

INCOME FROM INVESTMENTS

Debit:

With interest accrued on bonds and included in the cost of bonds purchased.

Credit:

With interest received on bonds and with dividends on stock owned by the firm.

The balance of the account represents the net income from investments and is closed into the Income and Expense account.

PROFIT AND LOSS ON SECURITIES SOLD

Debit:

With the excess of cost over selling price of securities sold.

Credit:

With the excess of selling price over cost of securities sold.

A credit balance shows the net profit on securities sold; a debit balance, the net loss. The balance is closed into the Income and Expense account.

BOND PREMIUM AND DISCOUNT

Debit:

With premium on bonds purchased.

Credit:

With discount on bonds purchased.

If such premium or discount is comparatively small, the balance shown by the account may most directly be disposed of by closing it into the Income and Expense account. In the case of a large purchase of bonds at such a price that the premium or discount is a considerable amount, it would be advisable to write off the amount over the life of the bonds.

INCOME AND EXPENSE

Debit:

At the time of closing the books with all accounts showing an expense.

Credit:

At the time of closing the books with all accounts showing an income.

The balance of the account if a credit represents the net income of the firm for the period and is closed into the drawing accounts of each partner in the proportions agreed upon.

A debit balance represents a net loss and is likewise closed into the drawing accounts of the partners.

TRIAL BALANCES AND FINANCIAL STATEMENTS

A trial balance is taken monthly of the General Ledger. At the same time, a trial balance is taken of each section of the Clients' Ledger to see that each is in balance with its corresponding controlling account.

The books are closed yearly as of December 31. An inventory is taken of law stationery and postage, and of office supplies, a statement of income and expense and a balance sheet are prepared and the Ledger accounts are closed. The bookkeeper as soon after closing the books as is convenient makes up the return of net income to the collector of internal revenue for each partner, as required under the Federal Income Tax Law.

Following is the trial balance taken from the General Ledger of the firm of Stickney, Hinds, Rollins & Chase, with offices at 387 Belknap Building, Boston, Mass., as of November 30, 1914:

Cash.....	\$4,612.61	
Petty Cash.....	125.00	
Accounts Receivable.....	20,971.40	
Clients' Cash Disbursements.....	2,622.50	
Clients' Cash Suspense.....		\$1,900.00
Office Equipment.....	6,862.70	
Library.....	5,000.00	
Investments.....	72,832.96	
Henry M. Stickney, Capital.....		28,762.80
James A. Hinds, Capital.....		26,419.36
Philip W. Rollins, Capital.....		12,541.20
Joseph Chase, Capital.....		10,914.76
Henry M. Stickney, Drawing.....	18,000.00	
James A. Hinds, Drawing.....	16,200.00	
Philip W. Rollins, Drawing.....	10,350.00	
Joseph Chase, Drawing.....	7,375.00	
Law Stationery and Postage.....	1,532.25	
Office Supplies.....	312.81	
Salaries and Wages of Office Staff.....	14,400.00	
Rent of Offices.....	4,200.00	
General Expense.....	5,812.80	
Loss on Bad Accounts.....	2,727.75	
Fees — General.....		79,623.45
Annual Retaining Fees.....		25,000.00
Collections.....		1,306.20
Interest on Bank Balance.....		109.62
Income from Investments.....		3,163.47
Profit and Loss on Securities Sold.....		4,481.20
Bond Premium and Discount.....	284.28	
	<u>\$194,222.06</u>	<u>\$194,222.06</u>

PRACTICE WORK

Open Ledger accounts with the accounts in the above trial balance, four to a page; enter the balances on the proper sides of the accounts.

CASH BOOK

Design a Cash Book from the description previously given, using Journal paper for the purpose; after which enter the following transactions for the month of December:

- Balance, December 1, 1914, \$4612.61.
- Paid rent of offices for the month, \$600.
- Received bank statement for November showing interest credited for the month, \$3.96.
- Paid the following bills:
Telephone, \$75; newspapers, \$3; American District Telegraph, messenger service, \$16.50; electricity, \$39.70.
- Paid bill of Elwell-Baker Co., law stationers, for printing letter heads and bill heads, \$124.50.
- Received the following checks for legal services in payment of bills previously rendered:
A. O. Northup Co., \$152.75; American Carpet Co., \$350; John C. Mason, \$100; Henry Miller & Co., \$750; Thomas Hardy, \$572.60.
- Received check from Women's Trade Union League for \$100, retaining fee on case undertaken by the firm.
- Received checks covering income from investments, \$312.40.
- Sold 100 shares National Lead bought at 38 for 62½ less brokerage.
- Received retaining fee from Howard Supply Company, \$50.

21. Collected claim of \$350 for A. Stowell & Co., and sent them our check for the amount less our charge of 10%.
22. Paid bill of Herald Publishing Company of \$20 for publishing legal notice connected with the case of a client, W. K. Renshaw. (To be charged to the client.)
25. Paid the following bills: Ward's, office supplies, \$12.62; Pilgrim agency, subscription to law periodicals, \$20.
28. Received checks from the following clients: Arlington Manufacturing Co., \$500; Arnold Print Works, \$122.80; Boston Elevated Railway Company (annual retaining fee), \$5000.
29. Bought ten City of Buffalo Water Bonds, 4½'s, due 1919, at 102½, denominations of \$1000.
30. Partners' drawings: Stickney, \$1000; Hinds, \$300; Rollins, \$500; Chase, \$1000.
31. Office pay roll for month, \$1512.75.

PETTY CASH BOOK

Design a Petty Cash Book following descriptions previously given. Amount of fund, \$125. Record therein the following disbursements from the fund:

December 1, carbon paper and stencils, \$5; 2d, stamped envelopes, \$20; 3d, mileage book, \$20; 5th, car fare, \$4.50; 10th, entertaining, \$5.50; 11th, cleaning offices, \$8.50; 12th, postage, etc., on account of client, Raymond Moore, \$18.70; 15th, express, \$2; 18th, office supplies, 75¢; 22d, cleaning supplies, \$2.80; 26th, disbursements for client, A. B. Whittier, \$11.50; 28th, express, 60¢; 31st, postage, \$5; car fare, 50¢.

Summarize payments for the month, close Petty Cash Book, and make proper entries in General Cash Book covering the disbursements for the month; a check is written for the total disbursements which is cashed and turned over to the clerk in charge of the Petty Cash.

BILL JOURNAL

Design a Bill Journal in accordance with description previously given, after which make entries for the following bills which have been mailed to clients:

December 2. Henry W. Savage, 184 Tremont Street, City, fee of \$500; total money disbursed in connection with case for which he is charged, \$7.80.

2. Mrs. Mary Bigelow, 22 State Street, Springfield, fee, \$150; expenses charged to her account, \$22.50; retainer paid when case was taken, \$25.

3. The Rutland Manufacturing Company, Rutland, Vt., fee \$300.

3. The Conant-Lee Co., 212 Boylston Street, fee \$75; expenses charged, \$5.

4. John E. Campbell, 216 Old South Building, fee \$1000; expenses charged, \$92.60; retainer, \$200.

5. Charles N. Clark, 78 Main Street, Amherst, Mass., fee \$500.

6. A. J. Pierson, 312 Columbus Ave., City, fee, \$100; retainer, \$25.

7. J. E. Thomas, 62 Arbor Street, Worcester, fee, \$625; expenses charged, \$45.62; retainer, \$50.

JOURNAL

Make adjusting entries for the following so that the accounts affected may show their true condition at the time of closing the books:

Law stationery and postage on hand are inventoried at \$297.60. The yearly salary allowance of each partner which is charged to the drawing account as drawn is as follows: Stickney, \$20,000; Hinds, \$18,000; Rollins, \$12,000; Chase, \$8000.

Additional bad accounts to the amount of \$372 are to be written off.

Interest at the rate of 6% is to be allowed on the original investments of each partner amounting respectively to \$20,000, \$15,000, \$10,000 and \$5000.

The following are required:

1. Post the December work and take a trial balance.
2. Statement of Income and Expense for the year. (After adjustment of interest the net income is divided in proportion to the original investment.)
3. Balance Sheet.
4. Closing entries; post them, rule Ledger accounts and take a proof trial balance.

NOTES ON THE FEDERAL INCOME TAX LAW AS IT APPLIES TO INDIVIDUALS

(Subject to changes by further rulings and decisions of the Treasury Department)

1. When Passed:

The Underwood Tariff Act was signed by President Wilson October 3, 1913, taking effect immediately upon its passage. Section II of this act relates to the Federal Income Tax and includes the provisions applying to (1) Individuals and (2) Corporations.

2. Persons Subject to Taxation:

- (a) Citizens of the United States residing either at home or abroad.
- (b) Resident aliens.
- (c) Non-resident aliens deriving income from property owned, or from trade or profession carried on in the United States.

3. Amount of Income which is Exempt:

\$3000 in case of unmarried persons or married persons not living with husband or wife; \$4000 in case of married persons living together.

4. Rate of Normal Tax:

1% on the entire net income in excess of \$3000 or \$4000.

5. Rates of Additional or Super Tax:

- 1% on amount over \$20,000 and not exceeding \$50,000.
- 2% on amount over 50,000 and not exceeding 75,000.
- 3% on amount over 75,000 and not exceeding 100,000.
- 4% on amount over 100,000 and not exceeding 250,000.
- 5% on amount over 250,000 and not exceeding 500,000.
- 6% on amount over 500,000.

6. Who Must File Returns:

- (a) Every person coming under Paragraph 2, clauses (a) and (b) above, having a net income of \$3000 or over, for the taxable year.
- (b) Every person coming under Paragraph 2, clause (c).

7. Exemptions:

- (a) Compensation of the present President of the United States (1913) during the term for which he is elected.
- (b) Judges of the Supreme and inferior courts now in office.
- (c) Compensation of all officers and employees of a state or any political sub-division thereof, except when such compensation is paid by the federal government.
- (d) Interest upon the obligations of a state, or any political sub-division thereof, and upon the obligations of the United States or its possessions.

8. With Whom Must Returns be Filed?

With the Collector of Internal Revenue for the district in which the individual resides. In case of a non-resident alien, with the collector for the district in which his principal business is carried on in the United States. (Collector of Internal Revenue for Massachusetts is John F. Malley, 45 Milk Street, Boston.)

9. When Must Return be Filed?

On or before March 1 of each year covering income received or accrued during the year ended December 31 of the year immediately preceding.

10. Form to be Used and Where Procured:

Returns shall be made on Form 1040 (Revised), copies of which may be procured from the Collector of Internal Revenue, or from any banking or brokerage house.

11. Tax Due and Payable:

A bill for the amount of tax due is mailed from the office of the Collector of Internal Revenue on or before June 1 of each year, payable on or before June 30. If tax remains unpaid after ten days' notice and demand thereof, 5% will be added and interest at the rate of 1% per month until paid.

12. Penalty for Failure to File a Return:

Failure to file a return on or before March 1 incurs a fine of from \$20 to \$1000; for filing a fraudulent return, a fine of \$2000 or imprisonment for one year, or both.

13. Explanation of Gross Income:

(a) Salaries and wages. (b) Professions and vocations. (c) Business, trade, commerce, or sales, or dealings in property either personal or real. (d) Rents. (e) Interest on notes, mortgages, bank deposits, bonds, deeds of trust, etc. (f) Income received from guardians, trustees, agents, administrators, executors, or other persons acting in a fiduciary capacity. (g) Partnership gains or profits (net profit). (h) Royalties from mines, oil wells, patents, franchises, copyrights. (i) Other sources not enumerated above.

14. Allowable Deductions:

(a) Necessary expenses paid within the taxable year in carrying on the individual's business. (This does not include personal, living, or family expenses, business expenses of partnerships, or cost of merchandise, or amounts paid for permanent improvements or betterments.)

(b) Interest paid on personal indebtedness.

(c) National, state, county, school and municipal taxes (except taxes for local benefits).

(d) Losses actually sustained during the year arising from fires, storms or shipwrecks, and not covered by insurance.

(e) Debts actually known to be worthless and which have been charged off during the year.

(f) Reasonable allowance for depreciation of tangible property.

(g) Allowance for exhaustion of mines and oil wells, not to exceed 5% of the gross output of the mine or well for the year.

15. Collection at the Source:

(a) All employers having disposal or payment of salaries, wages, or other fixed or determinable annual income of another person, exceeding \$3000, shall deduct and withhold sufficient to pay the **Normal tax**, subject to exemption claimed.

(b) Deductions at the source shall be made from all income payable to any person upon bonds and mortgages and similar obligations, even though such interest does not amount to \$3000. ("The source" in this paragraph means the debtor company or its paying agent.)

The provisions of the law noted in the above paragraph make it necessary for a person when presenting interest coupons or checks for deposit or payment, to furnish with the coupons or checks an Ownership Certificate, claiming exemption, in case the person is not subject to the tax, using **Form 1000B** (yellow); in case such a person is subject to a tax, he would use **Form 1000** (white), thereby not claiming exemption.

(c) All persons and companies acting in a fiduciary capacity, having control of the collection and distribution of income of whatever nature of another person exceeding \$3000 for any taxable year, after deducting dividends of a corporation paying the corporation tax.

(d) Agents or representatives of non-resident aliens, who are in charge of property owned, business conducted, or capital invested in the United States shall make full and complete returns of the income thereon even though it is less than \$3000, deducting the normal tax.

In all cases noted above, the person or company withholding income at the source must make a return covering such income on proper blanks furnished to such persons or companies. If the individual whose return of income has been made for him in this manner has no other income he need not file a return.

16. Affidavit:

The return must be made under oath or affirmation executed before any officer authorized by law to administer oaths.

RULINGS OF TREASURY DEPARTMENT RE FEDERAL INCOME TAX APPLYING TO INDIVIDUALS

T. D. 1893. Income tax on the interest on bank deposits and certificates of deposit not to be withheld at the source.

T. D. 1923. Husband and wife living together are entitled to a single exemption of \$4000 from the aggregate net income of both, and no more.

Returns are required in every case where either the husband or wife separately has an income equal to or in excess of \$3000, even though the combined income be less than \$4000, and returns are likewise required in cases where the aggregate income exceeds \$4000, though neither husband nor wife separately has an income of \$3000.

Either husband or wife may make his or her return separately, or may make one return for joint incomes.

Either husband or wife is liable for the payment of the tax.

T. D. 1945. Persons having an annual net income less than \$20,000 need not show income derived from dividends or net earnings of corporations on the return.

T. D. 1962. Reminding collectors and others that income tax returns are inviolably confidential.

T. D. 1989. Losses resulting during a taxable year from the sale of real estate by individuals not engaged in the real estate business are not deductible from gross income.

T. D. 2005. Losses resulting during a taxable year from the sale of personal property including stocks and bonds except in the case of brokerage houses and others whose principal business consists of dealing in personal property and securities are not deductible from gross income.

T. D. 2015. Persons who through ignorance or misunderstanding fail to file a return will be subject to a nominal fine of \$5.

T. D. 2048. Dividends should be treated as income on the day they are declared, whether distributed or not, and regardless of the time when the surplus or undivided profits were earned.

T. D. When the return is not filed on or before March 1 by reason of illness or absence, an extension of time not exceeding 30 days may be granted by the collector, provided a written application therefor is made by the individual within said period.

T. D. When an individual by reason of minority, illness, or other disability, or absence from the United States is unable to make his own returns, it may be made for him by his duly authorized agent.

T. D. A deduction for depreciation to be allowable, must be a fair measure of the loss sustained by reason of wear and tear, exhaustion or obsolescence of the property, and must be so entered upon the books of the company as to constitute a liability against its assets.

T. D. In case of alimony paid in excess of \$3000 it is provided that while the recipient must account for it as income, it is not to be considered as an allowable deduction to the person paying.

T. D. Gifts, donations or endowments shall not be deducted.

T. D. Pensions paid by the United States Government must be treated as income.

T. D. Gifts and bequests received not to be treated as income. Proceeds of life insurance policies paid at death or to the insured at the maturity of the policy not to be treated as income.

T. D. Persons whose compensation is in fees for professional services, as in the case of physicians, lawyers, accountants, architects, should include all amounts actually received for services rendered during the year, together with all charges for services entered on the books, if good and collectible.

T. D. Incorporated institutions exempt from local taxation are also exempt from all the provisions of the Federal Income Tax.

T. D. The word "accrue" in relation to the requirements of the law shall mean due and payable; thus bond interest coming due and payable on or before December 31 of any year shall be treated as income of the year.

T. D. "Rights" are to be regarded as income.

FEDERAL INCOME TAX LAW

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Booklets, circulars, etc., issued as advertising matter by banking and brokerage houses.

Income Tax Department; Journal of Accountancy. Ronald Press Co., began in November, 1913.

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EXERCISE 19

PROBLEM IN CALCULATING FEDERAL INCOME TAX

Robert T. Bancroft, President of the Globe Manufacturing Company, Boston, Mass., and residing at 52 Seaverns Avenue, Brookline, Mass., compiles the following summary of his personal income for the year ended December 31, 1914, preparatory to making a return of net income to the Collector of Internal Revenue. In addition to items of income he includes certain other items taken from his personal accounts which he thinks may be necessary in making the return. Mr. Bancroft is married, his wife having an income of her own which is also given in the summary. A joint return is to be made.

Mr. Bancroft's salary as president of the Globe Manufacturing Company, \$15,000. (Tax collected at source.) Yearly dividend on 501 shares of stock of the Globe Manufacturing Company, par value \$100, at 7%.

Interest on \$10,000 Chicago Elevated Railroad Company First Mortgage 5% bonds. Interest payable March 1 and September 1. (Tax collected at source.) Bonds were purchased July 5, 1914.

Interest on \$5000 Northwestern Power & Light Company 5% bonds bought in 1912; interest payable May 1 and November 1. (Tax collected at source.)

During 1914 he bought 500 shares Arizona Copper, par value \$25 per share at \$7.50, selling it later for \$16.25 (omit brokerage).

Interest on \$5000 City of Bangor 4's, January 1 and July 1, bought in 1910.

Interest received at $5\frac{1}{2}\%$ on first mortgage of \$6200 on property at 712 Huntington Avenue, payable June 30.

On October 1 an endowment policy of \$5000 matured and the amount of the policy was paid to Mr. Bancroft. On November 15, Mrs. Bancroft received from the executor of the estate of an aunt a cash bequest of \$2500. These two sums of money are temporarily on deposit in the Hood Trust Company where they are drawing interest at 3%.

Aggregate interest for year on checking account in the Spring Park National Bank, \$96.32.

Rents received by Mrs. Bancroft from property owned by her on Causeway Street, \$1600. Taxes paid on the property for year, \$216.80 and maintenance expenses of \$432.65. Estimated depreciation on the building, \$400.

Mr. Bancroft subscribed and paid \$1000 toward a building fund for a Young Men's Christian Association in Pittsfield, his native town.

Interest received on \$2000 bonds of the Turners Falls Power Company, at $5\frac{1}{2}\%$ (exempt from Federal Income Tax, the tax being paid by the Company. White certificate filed).

Sold 200 American Telephone and Telegraph "rights" at \$6.25.

Mrs. Bancroft received from the Colonial Trust Co., executors of her father's estate, as income for the year from the property held in trust for her under the provisions of the will, \$3612.75.

Royalty received during the year on a patented article manufactured by the Globe Manufacturing Company, \$7612.80.

Sold 100 shares United States Steel at $38\frac{1}{2}$, which were bought earlier in the year at 45.

Dividend on 200 shares American Telephone and Telegraph Company stock at 8%.

Gross income from a small dairy farm in Wakefield, \$12,612.50; farm expenses including repairs, \$6472.25; new barn constructed costing \$3500.

Mr. Bancroft owns a business block on Fulton Street on which there is a \$40,000 mortgage at 5%. During the year he received in rent \$20,000. He paid taxes of \$804, and other expenses of \$3012.60.

Mr. Bancroft owns his residence at 52 Seaverns Avenue, on which he paid taxes during the year of \$237.80. Tax paid on personal property, \$317.65. He paid an income tax of \$462.72 on June 15, 1914.

In your capacity as bookkeeper for the Globe Manufacturing Company Mr. Bancroft asks you to make out his tax return and supplies you with Form 1040. He also asks you to calculate the per cent of his income tax for the year on his net income.

CORPORATIONS

A corporation is an association of natural persons organized under State laws for some special purpose and endowed with the authority to act in most respects as an individual.

Powers: A corporation has the following powers and privileges and is subject to the following liabilities:

- (a) To have perpetual succession, unless the period of its duration is limited by its charter.
- (b) To sue and be sued in its corporate name.
- (c) To have a corporate seal.
- (d) To elect officers, define their duties and fix their compensation.
- (e) To purchase, hold, convey, mortgage or lease real estate in its corporate name.
- (f) To make contracts, issue mortgages and promissory notes, and incur other liabilities.
- (g) To make by-laws not inconsistent with the general statutes.

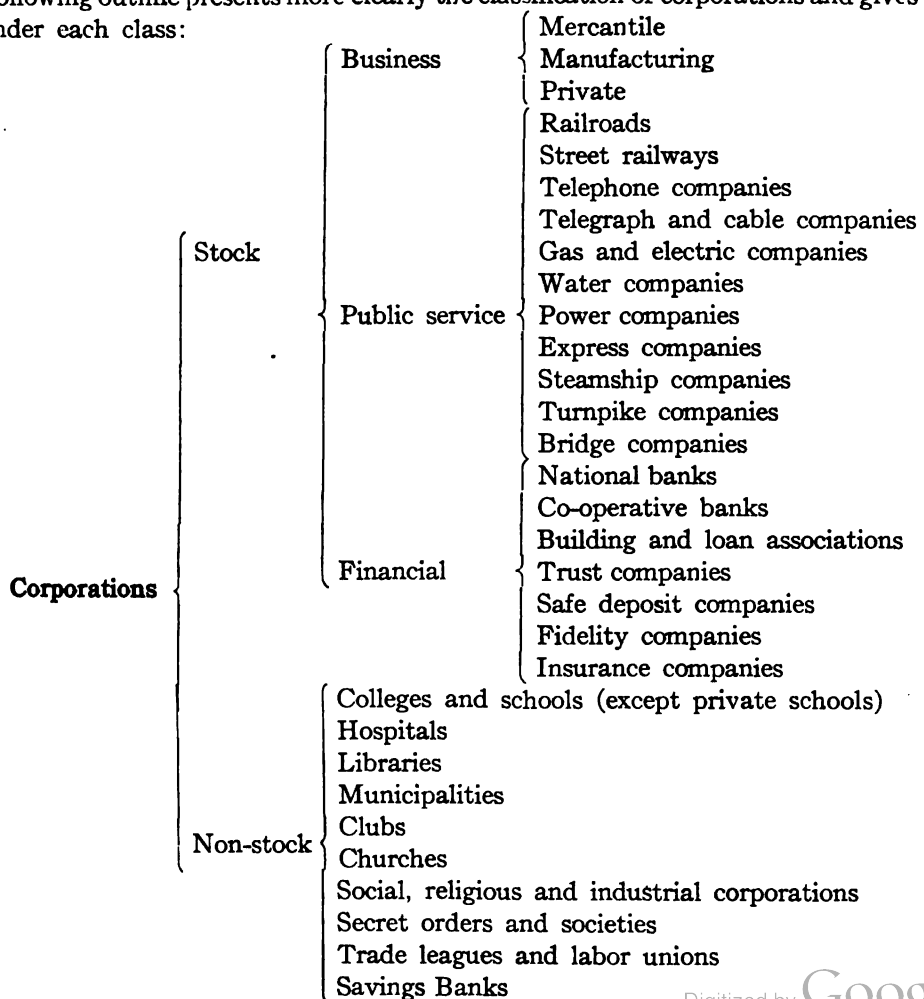
Classes: Corporations are divided into two general classes; namely: stock and non-stock corporations.

Stock corporations are those with a capital stock, divided into shares of a certain face value and issued to stockholders. Stock corporations are created for the purpose of operating some private enterprise, primarily for the profit of the stockholders.

Stock corporations are divided into three classes as follows: 1. Business corporations, or those engaged in manufacturing, mercantile, or other private enterprise. 2. Public service corporations, organized to render some public service. 3. Financial corporations.

Non-stock corporations are created for some public purpose and not for private gain. As the term implies, there are no stockholders in a non-stock corporation; the individuals who compose such a corporation are usually spoken of as members.

The following outline presents more clearly the classification of corporations and gives examples coming under each class:



Organization: Non-stock corporations are organized by grant of a special charter from the State legislature. (A **charter member** is one of the original members of a society or corporation, especially one who had an active part in organizing the corporation and in securing its charter.)

Stock corporations were formerly created in the same manner as non-stock corporations; the organizers were required to petition the legislature for a charter, the petition being presented in the form of a bill which had to pass both branches of the legislature and receive the signature of the governor. This method of incorporating had its disadvantages as there was likely to be considerable delay in the granting of the charter, and it was impossible for a corporation to be formed except during that part of the year that the legislature was in session.

As the corporate form of organization became more general, most states passed laws providing for the organization of stock corporations under general statutes; furthermore, there are now in force in most States special statutes governing the organization of purely "business" corporations. Such statutes usually require the execution of "articles of incorporation" setting forth the names and addresses of the incorporators, the amount of stock subscribed by each, the name of the proposed corporation, the purpose for which it is formed, the amount of capital stock, the classes, if any, into which it is divided, the amount of each share, etc. The "articles of incorporation" must be submitted to the proper State official, usually the commissioner of corporations, who examines them to see that they conform to the requirements of the statutes, after which they are approved and signed and the State seal affixed. Such a certificate then has the force and effect of the charter formerly obtained by special grant of the legislature.

Any one interested in the steps to be taken in the organization of a business corporation in a particular State may by writing to the commissioner of corporations obtain a copy of the general statute relating to the formation of such corporations.

Advantages of the Corporate form of Organization: The steady increase in the number of corporations as a form of business organization is due to the numerous advantages which a corporation enjoys over the partnership or individual proprietorship form of organization. These advantages are summarized by Conyngton in his admirable work on "Corporate Organization" as follows:

- " (a) Its limitation of stockholders' liabilities to a definite amount.
- " (b) The stability and permanence of its organization.
- " (c) The representation of the different interests in the corporation and its property by transferable shares of stock.
- " (d) Its distinct legal entity for all business purposes.
- " (e) The management of the business by an elected board of directors, acting through officers and agents.
- " (f) The greater ease of securing capital because of the safeguards and advantages of the corporation."

Capital Stock: The capital stock of a corporation is the capital contributed by the subscribers thereto either in cash or property.

Classes of Stock: Capital stock is divided into two classes; namely: common and preferred. Common stock is the ordinary stock issued by a corporation.

Preferred stock is stock which entitles the holders thereof to certain privileges or guaranties. Preferred stock is always preferred as to dividends, which means that the holders of the stock are entitled to a dividend at a stated rate, usually 6% or 7%, before any dividend can be declared upon the common stock; such dividends may be cumulative or non-cumulative. If cumulative, unpaid dividends accumulate and must be paid in full before any dividends can be declared upon the common stock; if non-cumulative, a dividend once passed does not become a lien upon the future earnings of the corporation.

Preferred stock is often preferred as to assets also, which means that in case of the dissolution of the corporation, after the creditors have been paid in full, the holders are entitled to share in the remaining assets up to the face value of their stock before the common stockholders have any claim upon the assets.

Ordinarily, the holders of preferred stock are not entitled to share in the earnings of the corporation in excess of the preferred rate which their stock bears. In the case of a very prosperous company, therefore, the common stock may be much more valuable from an investment standpoint.

than the preferred, for while the preferred stockholders receive their preferred rate of dividend, the common stockholders are entitled to that portion of the remainder of the net profits which the board of directors sees fit to distribute. Examples: American Radiator Company, Quaker Oats Company, F. W. Woolworth Company. Again, preferred stock is sometimes issued carrying the right to an equal participation in the earnings beyond the preferential rate after the common stock has received a dividend equal thereto.

Because of the varying conditions under which preferred stock is issued, it behooves the investor to make careful investigation of the status of preferred stock in which he may be interested.

A **share** is one of the units into which the capital stock is divided. Unless otherwise designated, a share is understood to be \$100, although shares may be issued for any amount from ten cents, in the case of some mining companies, up to \$100. The Business Corporation Law of Massachusetts provides that capital stock shall not be issued in shares of less than five dollars.

Stock Certificate: A stock certificate is an engraved instrument issued to a stockholder by a corporation as evidence of the ownership of a certain number of shares of the capital stock. A stock certificate is usually signed by the president and treasurer.

Certificates of stock are personal property and are transferable in whole or in part by assignment. The corporation must be notified of the transfer so that the proper record of the transfer may be made on the corporation books. The old certificate must be surrendered by the seller, a new one being made out in the name of the purchaser.

The **par value** of stock is its face value as stated in the stock certificate; the **market value** is the price at which it is bought and sold. Stocks usually sell above par or at a premium, or below par or at a discount.

The market value of stock depends upon the prosperity of the corporation, the nature of the business in which it is engaged, the confidence of the investors in the financial management of the company, general trade conditions, and upon the rate of dividend which the stock pays.

A **dividend** is a periodic distribution to stockholders of all or a part of the profits of a corporation. A dividend cannot legally be declared except out of net profits. No stockholder has any claim upon the corporation for a share of the profits until a dividend has been declared by the board of directors. The dividend which is either a certain per cent of the par value of the stock outstanding or a certain number of dollars a share, may be declared quarterly, semi-annually or annually.

An **assessment** is a certain per cent levied upon the capital stock outstanding made at a time of financial embarrassment. The modern practice is to issue stock originally as "full paid and non-assessable," meaning that subscribers to stock at the time of its original issue must pay par for it and that no assessments can later be levied upon it. When stock is so issued, the stock certificates usually bear upon their face the words, "Full Paid and Non-Assessable," and such stock may be bought with confidence that its purchase will result in no unknown liabilities.

Board of Directors: The affairs of a corporation are controlled entirely by the board of directors, all of whom must be stockholders. The required number, usually three or five, is fixed by the corporation law. In the larger corporations more directors are usually necessary in order that all interests may receive proper representation. Frequently the board is increased in excess of actual needs in order to secure names that will attract investors and secure added financial standing.

In non-stock corporations the governing body is known as a board of trustees, board of governors, executive council, board of directors, or in a college as the "corporation."

Officers: While the directors are sometimes spoken of as officers, the common use of the term is to apply to those agents of the corporation elected by the board of directors as their executive representatives. The necessary officers are a president, treasurer and secretary (called clerk in Massachusetts). In some small corporations two of these offices may be held by one person, while in the larger corporations several vice-presidents, assistant treasurers and secretaries are often elected. The officers are usually elected by and from the board of directors.

The president is the executive head of the corporation and presides at the meetings of the board of directors.

The treasurer has charge of the finances of the corporation, has the custody of all corporate instruments held by the corporation, and participates in the execution of all instruments pertaining to the financial transactions. He signs all checks, with or without the president, as the by-laws may prescribe.

The secretary issues notices of all meetings of directors and stockholders, keeps minutes of such meetings, has charge of the corporate seal, and often signs the certificates of stock along with the president or treasurer. The secretary's duties should be fully described in the by-laws.

By-Laws: The adoption of by-laws is the first important step in the organization of a corporation. A corporation is subject first to general laws; second, to the provisions of the articles of incorporation; third, to its by-laws. The by-laws cover all details of corporation procedure and are so drawn as to become a systematic statement of all the working details of the corporation. Under the head of such routine details, the by-laws provide for the issuing and transfer of stock, the time for the meetings of the directors and stockholders, the election of directors and officers and their duties, the number of directors and stockholders that shall constitute a quorum, the creation of committees, the filling of vacancies in the board of directors, the order of business to be followed at meetings, the fixing of the status of treasury stock, the requirements regarding lost stock certificates, the declaration of dividends, the making of amendments, etc.

Treasury Stock: Treasury stock is stock which has once been issued by the corporation as full paid stock which is subsequently acquired by donation or purchase. Treasury stock appears on the books as an asset.

Corporations are often organized to take over the business of a partnership or the business of an individual proprietor, stock being issued to the partners or owner in exchange for the assets taken over. When this is done, the former partners or owner often agree to donate to the corporations a certain per cent of the stock received, such stock to be sold to secure working capital. The reason for such a procedure is that when the stock was originally issued for property it became full paid stock, regardless of whether the actual value of the property thus acquired equaled the par value of the stock issued. When originally issued in this manner as full paid stock, the corporation complies with the statute law, and the stock received by donation may then be sold for cash at any price which it will bring, regardless of how much below par such a price may be.

Frequently, corporations are organized with an authorized issue of stock in excess of the amount which is to be issued at first; such unissued stock is often incorrectly spoken of as "Treasury Stock," but the use of the term in this sense is to be avoided.

It is important to understand that treasury stock has no legal status and can neither vote nor participate in dividends.

Surplus: In the accounts of a stock corporation, surplus is the term used to apply to the excess of assets over liabilities and capital stock outstanding, and is as a rule made up of profits withheld from distribution. In all well-managed corporations a certain portion of the profits are withheld by the directors from year to year to provide increased working capital, to add to the financial strength, and to build up a reserve upon which to draw for dividends during periods of business depression.

In the accounts of a non-stock corporation which keeps its books by double entry, surplus is the term commonly used in the ledger and the balance sheet to signify the excess of assets over liabilities, there being no capital or other net worth account. The account thus indicates the wealth of the corporation and is a reliable indicator of its financial strength, granting that the assets and liabilities are accurately stated.

Deficit: In a stock corporation, deficit is the term which applies to the excess of liabilities and capital stock over assets and shows the impairment of capital; in non-stock corporations, deficit appears in the balance sheet as the excess of liabilities over assets and is an indicator of the financial needs of the corporation.

In the accounts of institutions, such as hospitals, charitable, social and educational organizations, which depend in whole or in part upon donations and contributions for means with which to carry on their work, it is not unusual for the finances of the institution to be so managed by the officers as to show a deficit for the fiscal period. Such a showing in a published report reveals clearly the pecuniary needs of the institution and makes a stronger appeal for aid to public-spirited individuals.

Bonds: A bond is the obligation of a corporation or of a municipal, state, or federal government to pay to the holder a certain sum of money at a definite time, with interest payable at a fixed rate and at certain intervals. In other words, the method adopted by a corporation of borrowing any considerable amount of money is by the issue of bonds, usually secured by a lien upon the property of the corporation.

Classes of Bonds: As regards their form, bonds are either registered or coupon.

Coupon bonds have interest coupons attached. These coupons are payable to bearer and are detached on the respective interest dates and deposited by the owner for collection in the same way that checks are deposited.

Registered bonds are registered on the books of the corporation issuing them in the name of the holder. Any transfer of ownership must be reported to the corporation so that proper record of the transfer may be made. Checks for the interest due are mailed by the corporation to the registered owners of the bonds on the respective interest dates.

Coupon bonds are more easily negotiated, but as they are payable to bearer, the owner runs greater risk of loss in case the bonds are lost or stolen.

As regards the nature of the security, bonds are of various kinds, the more common of which are first mortgage, second mortgage, collateral trust, convertible, debenture, equipment trust, serial, etc.

First mortgage bonds are a first lien upon the property of the corporation and as a rule are the most attractive to investors where security is of first importance; **second mortgage bonds** are a second mortgage upon the property which means that in case of failure of the company and subsequent liquidation, the claims of the holders of the first mortgage bonds are satisfied first, the residue of the property being applied to the satisfaction of the claims of the second mortgage bondholders.

Collateral trust bonds are secured by a deposit with a designated trustee or trustees of bonds or stocks of other corporations.

Convertible bonds are bonds which the holders may have converted into stock of the corporation after a certain date stated in the bonds.

Debenture bonds or **debentures** are certificates of indebtedness issued by a corporation without mortgage or collateral security. The security of such bonds is based upon the surplus earnings of the corporation over previous fixed charges. The larger corporations occasionally issue this class of bonds, and institutions such as clubs, secret orders and societies often borrow money of any considerable amount by the issue of debentures. **Convertible debentures** are debenture bonds of a class becoming more popular with the larger corporations such as railroad and telephone companies which contain the feature of convertibility into stock.

Equipment trust bonds are bonds usually issued by railroads which are secured by a first mortgage on the equipment bought with the money raised by the issue of the bonds.

Serial bonds are bonds maturing serially, a portion of the bonds being paid off each year. When a sinking fund is created, one method of managing the fund is to use the amount so set aside each year for the purchase of a portion of the bonds outstanding. The bonds to be retired under the serial plan are usually drawn by lot.

Bonds are known by the name of the company issuing them, by the rate of interest which they bear, by their date of maturity, or by the class of the bond.

Examples: U. S. Steel 5's; N. E. Tel. & Tel. 5's, 1932; New York City 4½'s, 1957; Panama Canal 2's, 1936; Massachusetts Gas First Mortgage 4½'s, 1929; N. Y., N. H. & H. Conv. 6's.

Bonds are usually issued in denominations of \$500 and \$1000, although the modern tendency is toward the issue of bonds in denominations of \$100 and in a few instances of \$50. By doing so, the opportunity is given to the small investor of placing his savings in sound securities that will yield a steady rate of income.

Following are some important distinctions to be observed between stocks and bonds which should be understood by all investors:

- (a) A stockholder is a part owner of a corporation; a bondholder is a creditor of the corporation.
- (b) The income from money invested in stocks is called dividends; from money invested in bonds, interest.
- (c) A dividend on stock can be declared only out of net profits; interest on bonds is a fixed charge and is deducted before net profits are arrived at.
- (d) The dividend on stocks may be increased as the company becomes more prosperous; the interest on bonds is at a fixed rate.
- (e) Bonds being a fixed obligation of a corporation mature at a definite time, the principal amount of the bonds being then paid to the holders; stock is not a liability of the corporation;

consequently, a stockholder cannot demand of the corporation the money invested by him. In case of liquidation of the corporate affairs, however, after all the liabilities are satisfied, the residue belongs to the stockholders.

(f) Stocks are often bought for speculative purposes; bonds are purchased purely for investment.

(g) Stocks are subject to sudden and frequent fluctuation in market value; bonds usually sell near par value.

(h) Stockholders have one vote in the management of the affairs of the corporation for each share of stock held; bondholders have no voice in the management.

(i) The income from stocks is usually greater than from bonds.

Sinking Funds: A sinking fund is a fund to which periodic contributions are made for the purpose of providing a fund to be used in paying off a debt at its maturity. The deed of trust under which bonds are issued frequently requires the creation of a sinking fund to be placed in the hands of sinking fund trustees.

By the use of tables of logarithms one can determine what amount of money invested at a certain rate of interest should be set aside periodically in order that a fixed sum may be available in a certain number of years. Money set aside as a sinking fund is either deposited in a savings bank, invested in high-grade securities, used in the retirement of the bonds for which the fund was created, or invested by the company in betterments and additions by which means its financial position is strengthened.

Corporation Books of Account: The only books of account peculiar to a corporation are those in which are kept the special records required by the corporate form of organization. These comprise the Minute Book, Subscription Book, Stockholders' Ledger, Stock Certificate Book, Stock Transfer Book, Dividend Book, and Bond Register.

The **minute book** is kept by the secretary and contains the minutes of all regular and special meetings of the stockholders and of the board of directors.

The **subscription book** is a register in which the subscribers to the capital stock at the time of its original issue sign their names, against which is entered the number of the shares subscribed for.

The **stockholders' ledger** is a subsidiary ledger containing an account with every stockholder. Each stockholder's account is credited at par with the number of shares of stock acquired and debited with the par value of any stock disposed of. The Capital Stock account is the controlling account for the Stockholders' Ledger.

The **stock certificate book** is a book somewhat resembling a check book made up of blank certificates attached to stubs. A certificate is issued to any one who becomes a stockholder, certifying to the number of shares owned, the par value of each, the class of stock, the conditions under which it is issued, and signed by the proper officials. In case a stockholder sells all or a part of the stock which he owns his certificate is surrendered to the company and canceled and a new certificate issued to the purchaser.

A **stock transfer book** is a book which contains a record of all stock transferred from one person to another. Postings to the Stockholders' Ledger are usually made from this book.

A **dividend book** contains a record of all dividends declared and paid as well as a record of all unclaimed dividends.

A **bond register** is a record of bonds issued by a corporation.

GENERAL INVESTMENT TERMS

Stock Exchanges: A stock exchange is a market where those who wish to buy and sell stocks may come together. Stock exchanges are in operation in all the leading cities of the country, the largest and best-known being the New York Stock Exchange.

Listed and Unlisted Stocks: Listed stocks are those which have been admitted to the right of being dealt in on a stock exchange.

Unlisted stocks are those not listed for sale on an exchange. In some exchanges such stocks are called "curb stocks" as it is the custom of the traders in such stocks to come together on a certain street in the financial district to carry on their trading. The "curb" market in New York City is a very active one, some of the best-known stocks being "curb" stocks. The New York

Stock Exchange also has an unlisted department. In 1913, the stock of about 1600 corporations was listed on the New York Stock Exchange, representing a capitalization of about \$26,500,000,000.

A great many investors have the mistaken idea, that the listing of an issue of stock or bonds on a stock exchange is a guarantee of their safety from an investment standpoint. While the board of governors of the stock exchange does make an investigation of the company which asks to have its securities listed, and while it compels the company to meet certain requirements, yet it in no way guarantees the safety of the securities.

If one is buying bonds for permanent investment, it makes little difference whether they are listed or unlisted. A purchase of bonds merely means the purchase of a promissory note of a corporation maturing at some definite date. When the bond comes due, the company must pay the principal and interest in full. Because of this fact, good bonds usually sell at approximately their par value. There are two good reasons, however, why listed stocks are as a general rule superior to unlisted stocks from the investor's standpoint.

First. Listed stocks always have an active market, and an investor is able at any time to sell his stock should he desire to do so.

Second. By following the daily quotations of listed stocks, one always knows the market value of his stock.

Stock Quotations: The financial page of the newspapers published in the larger cities gives daily a tabulated list of the stocks bought and sold on the New York Stock Exchange with the opening, high, low, and closing prices of the stocks for that day. If there is a local stock exchange, quotations are also given of the sales on the local exchange. The prices of the stocks of the larger corporations all over the country, however, are determined largely by the New York quotations. The New York Stock Exchange is a national institution.

In following the market quotations of stocks, it is important to understand that the quotations are in per cents. The fractional per cents are in halves, quarters and eighths. A "point" is one per cent. In the case of stock with a par value of \$100 per share, the quotation in per cent agrees with its market value in dollars; if the par value is less than \$100, the market value in dollars is found by taking the per cent of the par value indicated by its market quotation.

Examples: American Telephone and Telegraph Co. stock is quoted on a certain day at $124\frac{3}{4}$; as the par value is \$100, one share of stock exclusive of brokerage would cost \$124.75. Calumet & Hecla Mining Co. stock is quoted at 495; as the par value is \$25, one share of stock exclusive of brokerage would cost \$123.75 (495% of \$25).

Stock Brokers: Stock brokers are persons who deal in securities of all kinds and who act as agents for others in buying and selling stocks and bonds on a stock exchange. For this service, a commission is charged called **brokerage**, which is usually $\frac{1}{8}\%$ of the par value.

The more important brokerage houses own seats on several stock exchanges located in the larger cities so that orders may be executed in any part of the country for the purchase or sale of any listed stock.

Stocks are either bought outright for investment purposes or are bought and sold on "margin" for the purposes of speculation.

A "**margin**" is a deposit made with a broker by one who desires to speculate in stocks. If the speculator thinks a certain stock is going to advance in price, he orders his broker to buy so many shares of the stock for him, depositing a "margin" usually of 10% of the par value of the stock. The broker "carries" the stock until he receives orders to sell, the "margin" protecting him from loss should the stock decline. When the "margin" is almost wiped out by the decline, the broker calls upon the speculator for more margin and if it is not furnished, the broker sells the stock.

Speculators also sell stocks for future delivery in anticipation of a decline in price, hoping to be able to fill the order at time of delivery at a price below the price at which it was sold. The "margin" then protects the broker should the stock advance in price.

A speculator who buys stock on "margin" in anticipation of a rise is said to "buy long," or to be "long of the market"; one who sells in anticipation of a decline in price is said to "sell short," or to be "short of the market." The name given to the first class of speculators is "Bulls"; the second class, "Bears."

Ex-Dividend: Stocks sold ex-dividend means that the seller is entitled to the dividend recently declared. The transfer book of a corporation remains closed during the period of usually ten days or two weeks between the meeting of the directors at which the dividend is declared and the date of payment of the dividend. During this period the stock sells ex-dividend.

Collateral: Collateral consists of stocks, bonds, notes, savings bank books, insurance policies, jewels, etc., pledged with a broker or a bank as security for a loan.

Accrued Interest: Most bonds are now quoted "with accrued interest" or "and interest," which means that on the day of sale the purchaser must pay the quoted price for the bond plus interest accrued from the last interest period to the date of purchase. If the accrued interest is not taken into account, the bonds are said to be quoted "flat."

Watered Stock: Watered stock is stock issued in excess of the actual value of the property received by the corporation in exchange. One object in issuing watered stock is to conceal from the public the true profit earned by the company on the actual capital invested.

Rights: When a corporation increases its capital stock, "rights" are issued to holders of the old stock granting to them the privilege of subscribing to the new issue at a price below its probable actual market value. The "rights" are in the form of warrants which are certificates issued to the old stockholders stating the number of new shares which they may subscribe for. This is a certain per cent of their present holding, as, for example, the right to subscribe for one share of new stock for every five shares of old stock held. This necessitates the issue of fractional rights to stockholders who do not hold even multiples of five shares. These warrants are transferable so that if an old stockholder does not wish to use his "rights" in subscribing for the new stock he can sell them. The warrants are dealt in on the stock exchange the same as stock.

"Rights" are usually issued also to holders of convertible bonds.

RULES APPLYING TO LEDGER ACCOUNTS PECULIAR TO CORPORATIONS

CAPITAL STOCK

Debit

With the par value of stock retired; this would only be in case of the reduction of the capital stock.

Credit

With the par value of stock issued.

The balance shows the par value of stock outstanding.

When a corporation issues more than one class of stock, a separate account should be kept with each, designated as "Capital Stock — Common," "Capital Stock — Preferred," etc.

Capital Stock should be credited only with the stock actually issued. If the authorized issue exceeds the amount issued, the unissued stock is, therefore, not shown on the books, although it is well to call attention to the authorized issue at the head of the Capital Stock account.

Should the officers insist upon having the Capital Stock account show the full authorized issue, an account may be opened with Unissued Stock, or Unsubscribed Stock, but never with Treasury Stock. The account opened should be debited with the amount of stock remaining to be issued. Instead of showing such an account in the Balance Sheet as an asset, it should be deducted on the liability side from "Capital Stock — Authorized Issue," the difference being the amount "Issued and Outstanding."

SUBSCRIPTION

Debit

With par value of stock subscribed for to be issued at a later date. At the same time, credit Capital Stock. In the organization of a corporation, this is usually the first entry made and appears in the Journal.

Credit

With the par value of the stock when paid for.

The balance represents the amount of stock subscribed, payment for which has not yet been received.

If capital stock is subscribed to be paid for in installments, it is customary not to issue stock certificates until the last installment is paid. When the subscription is to be paid in installments,

the Subscription account should be debited and Subscribed Stock credited instead of Capital Stock. As each installment is paid, Subscription is credited, the payment of the final installment balancing the account. An entry should then be made debiting Subscribed Stock and crediting Capital Stock.

TREASURY STOCK

Debit

With the par value of stock which has once been issued and subsequently acquired by the corporation by donation or purchase.

Credit

With the par value of donated stock sold; if sold below par, debit Working Capital Donated with the discount; if sold above par, credit the same account with the premium.

When stock is acquired by donation, it is generally in order that it may be sold to provide working capital. (See Treasury Stock.) When the entry is made debiting Treasury Stock, Working Capital Donated should be credited.

When the treasury stock has all been sold, an entry should be made debiting Working Capital Donated and crediting Surplus, or, better, Capital Surplus; a credit to Capital Surplus keeps surplus created in this manner distinct from surplus built up out of operating profits. Although there seems to be no law against doing so, it would be poor financial policy to declare dividends out of surplus acquired by the sale of treasury stock.

SURPLUS

Debit

With dividends declared; with any portion of the surplus set aside for a special purpose; with the net loss as shown by the Profit and Loss Statement.

Credit

At the time of closing the books with the net profit as shown by the Profit and Loss Statement.

Surplus should also be debited or credited with any adjustments made after closing the books which in any way affect the profits of the preceding period; as, for example, an error in figuring the inventory not discovered until after the books were closed.

The balance of the account, if a credit, represents the undivided profits; a debit balance in a stock corporation shows the impairment of capital stock; in a non-stock corporation, the excess of assets over liabilities. A debit balance should be shown in the balance sheet under the title, Deficit.

DIVIDENDS

Debit

With dividends paid.

Credit

With dividends declared by the board of directors, at the same time debiting Surplus.

BONDS

Debit

With the par value of bonds paid or retired.

Credit

With the par value of bonds issued.

The balance represents the par value of bonds outstanding.

The account with bonds should be named after the class of bonds issued, as First Mortgage Bonds, Collateral Trust Bonds, Debenture Bonds. When more than one class of bonds is issued, a separate account should be opened with each.

EXERCISE 20

CORPORATION ACCOUNTS

1. Name a corporation coming under each of the classes on page 80.
2. Secure a copy of the Business Corporation Law of your own State and from a study of it write out the requirements of the law on the following points:

- (a) Steps to be taken in organization.
- (b) Corporate name.
- (c) Number of incorporators necessary.
- (d) Minimum amount of capital stock.
- (e) Minimum par value of shares.
- (f) Officers required; how chosen.
- (g) Number of directors; how chosen.
- (h) For what capital stock may be issued.
- (i) Liabilities of stockholders and directors.
- (j) Annual report to the State; form of such report.
- (k) Organization and filing fee.
- (l) Taxation.
- (m) Meeting of stockholders.

3. Look up the meaning of the following investment terms: Proxy, Income Bonds, Underwriting; Stock Dividend; Passing a Dividend; Joint Stock Company.

4. R. H. Barnes, C. W. Weston and J. H. Moore organize the R. H. Barnes Company with a capital stock of \$25,000, divided into shares of \$100 each. On June 1, all of the stock had been subscribed for, and the subscribers made payments for their stock in cash, June 15. Make opening entries in the books of the corporation.

5. The Wakefield Company was incorporated January 1, 1913, with an authorized capital stock of \$100,000 consisting of \$50,000 6% Preferred Stock and \$50,000 Common Stock, divided into shares of \$100 each. All of the Preferred Stock and 50% of the Common Stock had been subscribed for. The subscriptions were paid February 1. Show in Journal form the entries to be made for the above.

6. James Potter and Henry Pickett have been partners in the wholesale drug business for a number of years. They decide to incorporate, and a corporation to be known as the National Drug Company is organized under the laws of Maine, with a capital stock of \$80,000, \$60,000 of which is 6% Preferred Stock, and the remainder Common Stock.

The balance sheet of the partnership on July 1, the date of incorporation is as follows:

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$2,000	Notes Payable.....	\$2,000
Real Estate.....	40,000	Accounts Payable.....	8,000
Accounts Receivable.....	20,000	James Potter, Capital.....	30,000
Notes Receivable.....	5,000	Henry Pickett, Capital.....	30,000
Furniture and Equipment.....	3,000		
	<u>\$70,000</u>		<u>\$70,000</u>

All of the Preferred Stock is issued in equal parts to Potter and Pickett in exchange for the net assets of the old business. The Common Stock is all subscribed for at par by outsiders, and their subscription is paid August 15.

Show in Journal form the entries necessary to bring on the corporation books the assets acquired and the liabilities assumed together with the issue of both classes of stock.

7. The National Drug Company closed its books December 31, at which time the Profit and Loss Statement showed a net profit of \$5496.83. A semi-annual dividend of 2% on the Common Stock is declared by the Board of Directors, payable January 15.

Show entries for closing the Profit and Loss account, for the declaration of the dividends and their payment.

8. The directors of the Consolidated Railway Company vote an issue of \$850,000 first mortgage 5% bonds on March, 1912, due in 1940. The entire issue is subscribed for by E. H. Sloane & Co., Investment Bankers, at 98.

Make proper entry to show the issue of the bonds.

9. On April 10, the Pittsburg Athletic Club vote to issue \$25,000 in 6% debentures to secure money with which to construct new golf links and make other improvements. The entire issue was subscribed for at par by members, and the amount paid in.

Make proper entry.

10. At the time of incorporating the Jones Manufacturing Company, May 1, 1912, to take over the business established by William Jones, it was the agreement between Jones and the other incorporators that of the \$100,000 in capital stock which he received in exchange for his business, he would donate to the corporation 20% to be sold to provide cash to make necessary expansion. On July 10, \$10,000 of the stock so donated was sold to investors at 60.

Make proper entries.

11. George N. Brown is an inventor and holds patent rights processes, and inventions which are used by different companies in the manufacture of gas and electric engines and electrical appliances. He decides to organize a corporation for the purpose of selling gas and electric engines, pumps, irrigation machinery and a full line of electrical appliances. A central jobbing house is to be established in Boston and selling agencies will gradually be opened in all the principal cities.

The corporation is organized under the laws of the State of Maine, March 1, 1913, the incorporators being George N. Brown and three of his business associates. The corporation name is The George N. Brown Company. The authorized capitalization is \$100,000 divided into 500 shares of 7% non-cumulative Preferred Stock, par value \$100 per share, and 500 shares of Common Stock, par value \$100 per share. In order that the incorporators may qualify as directors, each is given two shares of Common Stock. Brown assigns to the corporation all of his patent rights and trademarks in exchange for 100 shares of Preferred and 492 shares of Common Stock. He at once donates to the corporation all of his Preferred Stock and 242 shares of his Common Stock to be sold to procure working capital.

King & Co., stock brokers, are engaged to sell the Preferred and Common Stock held in the treasury, their commission to be paid in stock. They sell to John White 50 shares of the Preferred Stock, taking in payment two notes, one for \$3000 and the other for \$2000, each for 3 months and bearing interest at 5%. The \$2000 note is immediately discounted at the bank at 6%. For making this sale King & Co. are given 25 shares of Preferred and 75 shares of Common Stock from the Treasury Stock.

Brown is elected general manager of the company at a salary of \$2000 per year and traveling expenses. The payments made during the month of March are as follows: Office Furniture, \$200; Office Rent, \$50; Brown's salary for the month; organization expenses amounting to \$250; this included lawyer's fee, stenographer's services, publicity, State corporation fee, corporation seal, accountant's fee, corporation books of account, etc.

Make all necessary entries.

EXERCISE 21

MATHEMATICS OF INVESTMENT

1. How many shares of N. Y., N. H. & H. can be bought for \$5500 at $103\frac{1}{2}$; brokerage $\frac{1}{8}\%$?
2. A broker bought for me 500 shares Baldwin Locomotive Co. preferred, at $104\frac{1}{8}$; usual brokerage. What should be the amount of my check to cover cost?
3. How many shares of Central Leather, Common, at $22\frac{3}{4}$, brokerage $\frac{1}{8}$, were sold to net the seller \$9050?
4. If American Telephone and Telegraph pays a quarterly dividend of \$2 per share, how much must be invested in the stock at $127\frac{3}{4}$, usual brokerage, to yield an annual income of \$1200?
5. United States Steel, Preferred, pays an annual dividend of 7%. What will be my income from an investment of \$2500 at $105\frac{1}{2}$, brokerage $\frac{1}{8}\%$?
6. How many shares of Woolworth Common can I buy with \$5580 at $92\frac{7}{8}$; usual brokerage?
7. I have \$1287.60 in the Home Savings Bank on which I receive an annual dividend of $3\frac{3}{4}\%$. What change will be made in my income if I withdraw a sufficient amount to buy 10 shares American Sugar Refining Co. at 111, brokerage $\frac{1}{8}\%$, which pays a 7% dividend?
8. Which is the better investment and by how much, National Biscuit, Preferred, at 115, paying 7%, or New York Central at $102\frac{1}{2}$, paying 6%?
9. I own a two-tenement house, for which I paid \$7500. The lower floor rents for \$27.50 per month, the upper floor for \$32. The property is assessed for \$6800 on which I pay taxes of \$17.20 per thousand, insurance of $\frac{3}{4}\%$ on $\frac{2}{3}$ of the assessed value, repairs averaging \$75 per year, water rent \$25, and other expenses \$100. What rate of interest does my investment yield?
10. Find the rate of income on each of the following:

<i>Stock</i>	<i>Market Quotation</i>	<i>Rate of Dividend</i>
Butterick Co.....	29	3%
Penn. R.R.....	113 $\frac{1}{4}$	6%
Northern Pacific.....	115 $\frac{1}{2}$	6%
Adams Express.....	246	12%
Mergenthaler Linotype Co.....	224	15%
Pullman Co.....	161	8%
Union Bag & Paper, Pfd.....	53 $\frac{1}{4}$	2%
Calumet and Hecla (\$25 per share).....	475	28%

11. A man sells 25 shares Union Pacific paying 8% at 148 $\frac{1}{2}$, brokerage $\frac{1}{8}$ %, and deposits the proceeds in savings banks paying 4% interest. Find the change in his income.

12. The General Electric Co. has capital stock outstanding December 31, 1910, of \$65,181,200. The gross income for 1910 was \$71,478, 558; the total expenses were \$42,938,975. After declaring a dividend of 8% what amount remained to be carried to surplus? What amount of dividend would be received by a man who owned 100 shares of the stock? What is his rate of income if the stock cost him 162?

13. The Diamond Match Co. has capital stock outstanding of \$16,000,000. The net earnings for 1910 were \$1,850,482. After carrying \$750,000 to surplus, find the largest whole per cent dividend the company could declare.

14. How much must be invested in Amalgamated Copper at 65, including brokerage, to yield an annual income of \$1500 if the stock pays 5%?

15. On January 5 a speculator deposited with his broker \$1000, and instructed him to buy 175 shares Chesapeake & Ohio at 50. On January 17 the broker was instructed to sell the stock at 56 $\frac{1}{2}$. What was the customer's profit? Interest 6%, brokerage $\frac{1}{8}$ %.

16. February 17, 1914, J. W. Wilson deposits \$500 with his brokers, instructing them to buy 50 shares of Utah Copper at 55. The stock drops to 46 and Wilson is requested to furnish more margin. February 24, Wilson deposits \$200 additional but the stock continues to decline, and as he is unable to furnish any more margin, the brokers sell the stock at 42, on February 27. What was Wilson's loss? Interest at 6%.

DORMITORY ACCOUNTS

The bookkeeping involved in the purchase of equipment, supplies, provisions, and fuel, the paying of all expense bills, and the receipts from students, for board and room rent, is almost always done in the general accounting office of the college, known as the treasurer's office, or the bursar's office. There the students go to pay their dormitory bills; and all bills incurred in the conduct of the dormitory, after having been approved, are paid by the treasurer or the bursar.

When this is done, the matron has practically no bookkeeping to do, except perhaps the handling of a Petty Cash Fund and the accounting to the college periodically, or at the end of the college year, for all amounts expended from this fund. It is usually necessary that the matron have such a fund available from which to make small purchases of provisions from time to time of local grocers in case something has been omitted from the regular order, the purchase of fruit from wagons if the prices are obviously low, the payment for petty repairs, express, the purchase of an occasional kitchen utensil or anything of like nature.

As a rule, the matron would not be required to secure a voucher as evidence of all payments made, an itemized list of the expenditures from the fund being all that would be required by the college office. If the main office be strict in their accounting methods, however, she may be obliged to obtain a signed voucher for every payment made. Such vouchers would be blank forms filled out by the matron, and signed by the person receiving the money.

A form of a petty cash voucher is illustrated on page 51.

At any time, the total payments as shown by the vouchers on file deducted from the money received at the time the fund was created, should equal the balance of money on hand.

A warning should be inserted here against combining the petty cash with one's own personal cash. The Petty Cash Fund should always be kept separate from all other money and should never be used for any purpose except that for which it was intended.

The matron would make all collections from transients, merely keeping an account of the dates such money was received, from whom received, and the amount. Such money would be turned over to the college office weekly or monthly.

It is advisable for the college office to submit to the matron for approval, monthly bills for provisions and supplies and for new equipment purchased, before such bills are paid. It is only in this way that the office can be sure that the bills rendered are correct, that the provisions and supplies have actually been purchased and used, that the equipment ordered has actually been delivered, or that the services noted on the bill have actually been performed. It is essential, therefore, that the buying be looked after carefully and all deliveries checked with the orders. In case grocers and provision houses render a sales slip with the goods delivered, the slip should be checked carefully with the goods received and the slips filed in chronological order either on a spindle or in a clip large enough to hold all the slips for one month. When the monthly bill is submitted for approval by the college office, it should be checked with the sales slips and if they are in agreement, the slips may be destroyed.

If one becomes matron or superintendent of a fraternity house or of a club or private boarding house approved by the college, in which students live, the account keeping becomes more complicated and would frequently call for a complete system of bookkeeping. In such cases, the superintendent or matron becomes the business manager of the house or club and is expected to so handle affairs that a reasonable profit may be shown to the fraternity or to the owner of the club or boarding house. While her success would depend largely upon her natural business ability developed by study and experience, she would be aided very considerably by a simple system of keeping the accounts which would show a complete record of all cash receipts and disbursements and of all income and expenses. This could not well be accomplished unless the books were kept by double entry with accounts with all property and equipment owned and with income and expenses. A Cash Book, Journal, and Ledger would be the only books needed under ordinary circumstances, the Cash Book being of the most importance.

A bank account should be opened and all money received deposited except a small amount withheld from which to make petty payments. All bills which can be so paid with convenience should be paid by check. Receipted bills should be filed alphabetically in a box file, all bills from any one house being placed together in a folder. Canceled checks should be carefully preserved, preferably by filing the bank statement in envelope form with checks enclosed, just as it was rendered by the bank. Before filing away each month's statement, it is essential that the statement be compared with the check book to see that the two agree, allowance being made for outstanding checks.

The importance of keeping the accounts up to date cannot be over-emphasized. No system of bookkeeping will run of its own accord. The accounts must be kept. It is a mistake to regard this work as greatly subordinate to one's other duties, only such time being spent upon the books as is necessary to keep the accounts somewhere near up to date. Neither should the capable and efficient superintendent regard such work as drudgery, but rather as of vital importance in order to ascertain the true measure of one's success as a business manager.

The ideal method to be pursued is to set aside a few minutes of each day, preferably in the evening, or perhaps one evening each week would suffice in many cases, to keeping the books. By allotting a regular time to such work, more interest will be taken in it, and the books will invariably be better kept.

The following list of Ledger accounts are suggestive of those that it would be advisable to keep in a well-conducted private dormitory owning its own building and house furniture and furnishings:

Land	Investment Account
Building	Food
Depreciation on Building	House Service
House Furniture and Furnishings	Repairs and Renewals
Depreciation on House Furniture and Furnishings	Fuel, Light and Water
Kitchen and Dining Room Equipment	General Expense
Cash	Income from Dormitory
Accounts Receivable	Income from Transients
Mortgage Payable	Income from Sale of Waste

MISCELLANEOUS EXERCISES

EXERCISE 22

JOURNALIZING

January, 1914

1. Bought on account, merchandise of J. M. Guilford, per bill rendered, \$946.53.
2. Sold C. W. Wallace, on account, merchandise, \$123.46.
3. Paid rent for one month by check, \$65.
4. Gave J. M. Guilford my note at 15 days, for \$500, to apply on account.
5. Paid J. M. Guilford cash, on account, \$100.
6. Received note at 10 days, for \$750, from C. W. Wallace, to apply on account.
7. Sold S. M. Blue merchandise per bill, \$192.30, and received in payment a note at 30 days.
8. I have transferred by endorsement, Wallace's note to J. M. Guilford, at its present value, to apply on account.
9. Bought a bill of merchandise amounting to \$652, from Chase & Co., giving in payment my note at 10 days.
10. Paid freight on above bill, \$4.35.
11. Bought of W. A. Clarke Coal Co., 10 tons coal at \$8.25, paying cash.
12. Received from Smith Bros. \$750, on account.
13. Paid my note due today, favor J. M. Guilford.
14. Sold Alfred Cook, on account, 10 barrels flour, at \$4.20; 100 pounds lard, at 19¢; 250 bushels potatoes, at 75¢.
15. Borrowed \$500 from J. M. Lambie, on my note at 30 days.
16. Paid gas bill for the month by check, \$7.50.
17. Prepaid my own note by check; face of note \$750.60; period of discount 35 days; rate of discount, 3%.
18. Received a check from Arthur Graydon, to apply on account, \$343.94.
19. Bought merchandise for cash, \$221.16.
20. Alfred Cook has returned 2 barrels flour as damaged and unsalable which we have credited him with at the price he paid.
21. Sold M. A. Bailey 15 barrels flour, at \$4.15; and 12 barrels pork at \$12.50. Received a check for \$100 in part payment, the balance on account. (One entry.)
22. Received from Steiger & Co. note of Andrew Dobbie for \$350, at its face value.

EXERCISE 23

JOURNALIZING

February, 1914

1. Sold merchandise to James Howard for his note at 20 days, \$80.
2. Bought merchandise from A. H. Miner for our note at 5 days, \$1345.18.
3. Sold merchandise for cash, \$32.96.
4. Received note at 10 days from Arthur Graydon, on account, \$128.37.
5. Paid our note due today, favor A. H. Miner, \$1345.18.
6. Sold Arthur Graydon on account, 30 days, merchandise per invoice, \$1123.75.
7. Bought from Harold Wayne, on account, 30 days, merchandise per invoice, \$1742.
8. Received note at 5 days from Foster Bros., in part payment of bill of October 2, \$150.
9. Gave Harold Wayne our note at 5 days, in payment of bill of September 26, \$365.
10. Bought merchandise of F. B. Mason, \$612.50. Gave in part payment a check for \$200; note at 60 days for \$300.
11. Paid our note due today with interest held by James Brown, face \$265; interest for 90 days at 5%.
12. Transferred by endorsement G. W. Wallace's note for \$226.25 to J. M. Guilford at the face value to apply on account.
13. Received cash from James Howard for his note due today, \$80.
14. Paid Duer Hardware Co. in full, \$165.

15. Received cash from Arthur Graydon for his note due today, \$125.37.
16. Paid our 60 day note, with interest due to date, favor Gimbel Bros.; face of note, \$192.
17. Paid janitor's service for the month by check, \$25.
18. Sold G. B. Dean & Co. for cash, merchandise per bill rendered, \$48.93.
19. Received cash from Harold Wayne, in full of account, \$32.87.
20. Discounted note received from J. F. Wiggins. Face of note, \$1000; period of discount, 26 days; net proceeds received in cash.
21. Prepaid our note of \$320, in favor of H. C. Bliss, given January 1, at 6 months, less discount to maturity.
22. A. R. Wells has transferred to us by endorsement a draft for \$325, at 60 days' sight, in his favor, drawn by H. E. Richards on Holmes & Co., accepted March 3, which we have placed to his credit, less discount to maturity.

EXERCISE 24
JOURNALIZING
March, 1914
Drafts

(Write entries for each party in this order: Drawer, Drawee, Payee.)

1. R. C. Adams gave B. E. Anderson, on account, his draft at sight on William Friend for \$250.
2. Harold Wayne gave Arthur Graydon on account, his draft at 60 days, on G. B. Dean & Co. for \$1000.
3. James Warren drew a draft at 30 days, on Richard Shield, in favor of Thomas Niland for \$2500.
4. David Irwin drew a draft at 60 days on Ira Willis, in favor of Harry Milton for \$465.
5. F. G. Botsford received on account from Andre Danvers, a sight draft drawn on Fred Archer for \$750.
6. George H. Hart accepted E. R. Grayson's draft at 10 days' sight in favor of himself, on account, for \$1650.
7. The drawer is Dilworth Bros., the drawee is Merchants Supply Co., the payee is C. M. Russell & Co. The draft is drawn at sight, for \$1265.
8. James Harris is the drawee, R. A. Walters the payee, and Wells & Day, the drawers of a draft at 60 days' sight for \$940.

(One entry for each of the following.)

9. Accepted 10-day draft drawn by M. Grace & Co., in their favor, for \$435.
10. We have received from Ward Bros. a draft at 10 days, on Mason & Hall, for \$630, which has been accepted.
11. We have drawn a 30 days' draft on King & Co., in favor of Wheeler & Wilson, for \$310.25.
12. We have drawn a draft at 20 days on McCallum & Co., in favor of ourselves, for \$500, which they have agreed to accept.
13. We hold a time draft for 90 days drawn on W. A. Wallace, January 5, for \$625, and accepted by him. We endorse it over to Henry Wagers and received credit for the proceeds, it being discounted at 5% for the unexpired time.
14. We have accepted a 10-day draft, drawn on us by W. A. Rogers & Co., in payment of a bill of goods amounting to \$320.15, bought of them April 20, on which they have allowed us a discount of 1%.

EXERCISE 25
JOURNALIZING

1. Closed our account with Wilson & French by giving our note at 90 days for balance \$146.15.
2. C. M. Russell transferred to us J. N. Wade's note for \$175 at its present value, the discount for the unexpired time being \$1.63.
3. Through a fire which broke out in the basement, goods to the value of \$70 have been entirely destroyed. No insurance.
4. We have received from the Three County Fair Association a prize of \$100 for the best decorated store window.
5. A robber entered the store and took from the money drawer currency amounting to \$81.85.

6. In paying our month's rent which was charged to the Expense account we drew our check for \$12 too much through an error in calculation. This amount has been refunded to us by the owners of the store.

7. We have discovered a counterfeit twenty-dollar bill in the cash drawer, the source of which cannot be traced.

9. Received from Steiger & Co. note of Andrew Dobbie for \$350 due April 15; we have allowed them credit for the net proceeds, discounting it at 6%; discounted March 5.

10. S. E. Hamlin clerked for us one week, and we have paid him with merchandise to the amount of \$12.50 taken from the stock.

11. K. N. Reynolds fails owing us \$567.34 on account; we compromise with him by taking his note for one year for 50¢ on the dollar, and give him a receipt in full.

12. We hold a 90-day note on W. A. Wallace, dated April 5, for \$625. We endorse it over to Henry Wagers and receive credit for the proceeds; discounted May 13, for the unexpired time at 5%.

13. John Brown's note for \$1500 due today was renewed for 3 months for the same amount. Six months' interest at 6% on the old note paid in cash.

14. Bought a bill of merchandise from C. E. Parsons amounting to \$376.45, giving in payment our note at 60 days for \$100, a check for \$200, and the balance on account.

EXERCISE 26

CASH BOOK

September, 1914.

1. Balance, \$4962.50.

2. Had our note for \$2000 discounted at the First National Bank and received credit for the proceeds. The note was for four months, and was discounted at 5%.

3. Bought a warehouse located at 29 River Street for \$3000, cash.

4. Paid invoice of J. A. Ross for \$427.39, less 3%.

5. Discounted J. A. Snyder's note for \$300 at the First National Bank. Period of discount, 39 days; rate of discount, 6%.

6. Drew a sight draft in our favor on R. F. Armstrong for \$139.20.

7. Loaned C. W. Pomeroy on his 60-day note \$50.

8. We have received a check from C. E. Norris in payment of our bill of goods sold him the 2d inst. for \$408.20, less 2%.

9. The Haywood collection agency reports the collection of our account with A. W. McKay for \$245.60. They have sent us a check for this amount less their collection charges of 5%.

10. We hold a note against Walker & Co., for \$180. We offer them a rebate of 10% for the immediate payment of the note. They accept and send us a check.

11. Charles H. Day presents bill for filling our ice house amounting to \$175. We send him a check for this amount less \$42.90 which is due us on his store account.

12. We receive a check from Henry Brown in payment of his note for \$200, with accrued interest for 3 months at 5%.

13. The King Printing Co. presents bill for \$5 for printing circulars to be used for advertising which we have paid by check.

14. Our traveling salesman sends in bill for \$42.35 for this week's expenses. We send him a New York Draft for the amount.

15. Pay Allen & Sons \$150 to apply on account.

16. Had a carpenter at work five days at \$1.75 per day, making repairs on warehouse.

17. Receive a New York Draft for \$75 from Hurd Bros. to apply on account.

18. I pay my note of \$162.50 held by E. M. Long with 5 months' interest due at 4%.

19. I have bought two Fox typewriters from George C. Ware at \$97.50 each, and 9 typewriter ribbons at 75¢ each.

20. Paid clerks' and janitors' services in cash, \$62.75.

22. I lost \$25 on the street today. I have offered a reward of \$5 for the return, paying 50¢ for advertising the loss.

EXERCISE 27

Trial Balance, April 30, 1914

H. C. Fraser (Proprietor)	\$33.00	\$2,500.00
Purchases	7,845.50	
Sales		6,109.00
Expense	104.00	
Cash	1,145.50	
Notes Receivable	669.50	
Accounts Receivable	1,941.00	
Notes Payable		845.00
Accounts Payable		2,284.50
	<u>\$11,738.50</u>	<u>\$11,738.50</u>

Merchandise inventory, \$2327.40; prepare Profit and Loss Statement for the month of April; Balance Sheet, Closing Entries.

EXERCISE 28

Trial Balance, May 31, 1914

Herbert Fallon (Proprietor)		\$6,000.00
Purchases	\$6,040.47	
Sales		6,327.50
Freight (on Purchases)	78.60	
Expenses	303.55	
Discount	22.91	29.70
Interest	3.91	5.72
Cash	4,477.23	
Accounts Receivable	2,092.50	
Notes Payable		156.25
Accounts Payable		500.00
	<u>\$13,019.17</u>	<u>\$13,019.17</u>

Merchandise inventory, \$1178.32; prepare Profit and Loss Statement; Balance Sheet; Closing Entries.

EXERCISE 29

Trial Balance, December 31, 1914

John W. Doe (Proprietor)	\$2,040.00	\$30,910.67
Purchases	49,813.15	
Sales		31,400.60
General Expense	1,524.27	
Advertising	525.73	
Salaries	1,920.00	
Furniture and Fixtures	1,210.00	
Traveling Expenses	550.00	
Real Estate	7,200.00	
Office Supplies	300.00	
Accounts Receivable	7,030.30	
Notes Receivable	297.40	
Accounts Payable		8,646.45
Notes Payable		2,400.75
Cash	947.62	
	<u>\$73,358.47</u>	<u>\$73,358.47</u>

Inventory, December 31, 1914, \$18,720.48; office supplies on hand, \$150; 5% depreciation on Furniture and Fixtures. Prepare Profit and Loss Statement, Balance Sheet, and Closing Entries.

EXERCISE 30

G. W. Brown

Trial Balance, May 31, 1914

G. W. Brown, Capital.....	\$112.00	\$8,800.00
Merchandise.....	1,451.34	
Expense.....	347.75	
Merchandise Discount.....	43.46	60.75
Furniture and Fixtures (cost).....	231.00	
Real Estate.....	12,125.00	
Discount.....	114.16	
Bills Receivable.....	700.00	
Accounts Receivable.....	3,622.75	
Bills Payable.....		6,505.00
Accounts Payable.....		3,654.25
Cash.....	272.54	
	<u>\$19,020.00</u>	<u>\$19,020.00</u>

Inventory, May 31, \$3372.55; Furniture and Fixtures have depreciated in value 10%; Office Supplies on hand, \$22.08; unexpired insurance amounts to \$76.67; no change in value of real estate.

An analysis of the Merchandise Account shows Purchases for May, \$9278.75; freight and cartage on goods bought, \$83.35; Sales, \$7898.76; a contribution by Mr. Brown to the City Mission of merchandise costing \$12.

Make adjusting entry necessary to close the Merchandise Account and to open the following accounts: Purchases, Sales, Freight and Cartage In.

On May 20, bill of Allen & Parker for \$125 for painting building at 246 Main Street was improperly charged to Real Estate. Make proper adjustment.

The following are required:

- (a) Adjusting Entries.
- (b) Adjusted Trial Balance.
- (c) Profit and Loss Statement for May.
- (d) Balance Sheet.
- (e) Closing Entries.

EXERCISE 31

G. W. Brown & Co.

Trial Balance, June 30, 1914

G. W. Brown, Capital.....		\$10,452.74
L. L. Logan, Capital.....		10,340.24
Merchandise.....	\$3,342.80	
Expense.....	549.62	
Merchandise Discount.....	133.77	217.21
Furniture and Fixtures.....	207.90	
Real Estate.....	7,125.00	
Discount.....	32.11	81.77
Interest.....	2.04	25.24
Bills Receivable.....	1,317.72	
Accounts Receivable.....	2,559.94	
Bills Payable.....		2,742.27
Accounts Payable.....		4,686.37
Shipment No. 1.....	302.50	336.87
Shipment No. 2.....	518.60	484.50
Shipment No. 3 (cost).....	1,955.00	
Cash.....	11,320.21	
	<u>\$29,367.21</u>	<u>\$29,367.21</u>

There is no merchandise on hand as a fire on the 25th destroyed most of the goods; the portion of the goods damaged by the fire was sold in bulk to Fletcher Bros. at a nominal price.

The building at 246 Main Street was also burned; the lot on which the building stood is estimated to be worth \$6000.

Furniture and Fixtures were a total loss.

No returns have been received from Shipment No. 3; it is valued at cost as shown in the trial balance.

An analysis of the Merchandise account shows the following: Inventory June 1, \$3372.55; Purchases for June, \$14,152.39; Freight and Cartage In, \$377.32; Sales to time of fire \$10,059.46; Sale of goods damaged by fire to Fletcher Bros. for \$1500; insurance received on stock lost by fire, \$3000; Cost of goods destroyed by fire, \$8920.38; cost of goods shipped to commission merchants, \$2745.50.

Make adjusting entry necessary to close the Merchandise account and open accounts with the following: Inventory; Purchases; Sales; Freight and Cartage In; Fire Loss.

An analysis of the Real Estate account shows a debit representing cost of \$12,125 and a credit of \$5000, being insurance received on the building.

The Capital account of G. W. Brown shows Net Worth of \$10,240.24 brought down from May plus a credit for salary of \$125 and for traveling expenses paid from his personal funds of \$87.50; the account of L. L. Logan shows investment of \$10,240.24 plus a credit for salary of \$100.

Make adjusting entries necessary for the following:

To open accounts with Discounts on Purchases and Discounts on Sales; with Interest on Bills Receivable and Interest on Bills Payable.

The following are required:

- (a) Adjusting Entries.
- (b) Adjusted Trial Balance.
- (c) Statement Showing Fire Loss.
- (d) Profit and Loss Statement showing first the profit on sales to time of fire followed by the final net loss.
- (e) Balance Sheet.
- (f) Closing Entries.

EXERCISE 32

E. A. Belden & Co.

Trial Balance, July 31, 1914

E. A. Belden, Capital account.....		\$8,494.68
E. M. Williams, Capital account.....		6,955.00
Merchandise.....	\$1,979.81	
Expense.....	125.00	
Furniture and Fixtures.....	250.00	
Real Estate.....	9,850.00	
Commission.....		133.19
Charges.....		26.63
Horses and Wagons.....	325.00	
Office Supplies.....	48.60	
Merchandise Discount.....		233.40
Shipments.....	1,066.68	
Discount.....	1.98	
Freight (on Purchases).....	289.05	
Accounts Receivable.....	4,293.70	
Notes Receivable.....	300.00	
Consignments.....	430.80	
Accounts Payable.....		2,856.82
Notes Payable.....		1,800.00
Cash.....	1,539.10	
	<u>\$20,499.72</u>	<u>\$20,499.72</u>

Merchandise inventory, July 31, 1914, \$2456.28; Real Estate estimated to be worth \$9700; unexpired insurance, \$45.83; office supplies on hand, \$35; furniture and fixtures valued at \$225;

horse and wagon valued at \$292.50; goods in hands of commission merchants valued at cost, \$1278.10; commission earned, \$19.25.

An analysis of the Merchandise account shows the following: Inventory, July 1, 1914, \$916.55; purchases, \$6867.45; sales, \$3000.69; cost of goods shipped to commission merchants to be sold, \$2803.50.

An analysis of the Shipment accounts shows the following: Inventory, July 1, \$1955; cost of shipments made, including freight, \$2831.60 (freight \$28.10); net proceeds received, \$3719.92.

Discounts on Purchases amounted to \$263; on sales, \$29.60.

The following are required:

- (a) Profit and Loss Statement, July 1—July 31, 1914.
- (b) Balance Sheet (Classify assets and liabilities as Current, Fixed, and Expense Items Paid in Advance).
- (c) Closing Entries.
- (d) Construct rules for debiting and crediting the following accounts, and state what the balance of each represents: Shipments; Commission; Charges; Consignments; Horses and Wagons.
- (e) What per cent of net profit was realized on the capital invested?
- (f) What two examples of Controlling Accounts are found in the books kept by a Shipping and Commission Business? By what names are the corresponding Subsidiary Ledgers known?
- (g) To what account must the expenses of the horse and wagon have been charged in this exercise? What would have been a better plan?

EXERCISE 33

Wood, Pollard & Co.

Trial Balance, September 30, 191—

F. H. Wood, Capital		\$16,578.04
C. F. Pollard, Capital		24,831.48
L. F. Johnson, Capital		2,602.03
F. H. Wood, Drawing	\$100.00	
C. F. Pollard, Drawing	50.00	
L. F. Johnson, Drawing		35.00
Notes Receivable	1,000.00	
Interest	35.04	
Accounts Receivable	10,740.46	
Inventory, September 1	23,525.05	
Shipping Supplies	196.50	
Office Supplies	192.75	
Insurance	267.50	
Horses and Wagons	742.50	
Furniture and Fixtures	2,475.00	
Real Estate	12,150.00	
Notes Payable		5,000.00
Accounts Payable		7,181.84
Traveling Expenses	225.00	
Rent	300.00	
Discount	3.60	
Freight Inward	47.59	
Purchases	7,597.27	
Wamsutta Mil's Stock	1,150.00	
Office Salaries	655.00	
Shipping Department Salaries	65.00	
Delivery Expenses	111.75	
Sales		10,593.69
Discounts on Purchases		61.27
Discounts on Sales	112.43	
Collection and Exchange	7.45	

Returned Purchases.....		\$297.84
Returned Sales.....	\$172.20	
Reserve for Bad Debts.....		121.60
Office Expenses.....	15.00	
Cash.....	5,365.70	
	<u>\$67,302.79</u>	<u>\$67,302.79</u>

The above accounts are representative of a wholesale dry goods business conducted by three partners under the firm name of Wood, Pollard & Co. The trial balance covers a period of one month.

The merchandise on hand September 30 amounts to \$22,372.76: furniture and fixtures are valued at \$2450; horses and wagons, \$735; insurance unexpired, \$260; shipping supplies on hand, \$93.25; office supplies on hand, \$106.50; real estate, \$122.50; Wamsutta Mills stock, \$1150.

The note of the firm for \$5000 is a demand note issued September 26 and bearing interest at 6%; the note of \$1000 held by the firm was received on September 9.

The Real Estate owned by the firm is a building at 74 Chestnut Street, which cost \$12,000, and which is occupied by a tenant. At the time of closing the books on August 31, the value of the property was increased to \$12,250; on that date rent accrued for August of \$100 was charged to the Real Estate account; September 2, \$200 rent was received from the tenant for August and September, which was credited to Real Estate, leaving the present balance of \$12,150. Make necessary adjustment.

The building occupied by the firm for business purposes is rented at \$300 per month.

The ten shares of Wamsutta Mills Stock were bought on August 13 for \$105 per share; the book value was increased August 31 at the time of closing the books to \$1150. No dividend has been received on the stock.

One-half per cent of the gross sales is to be set aside as a reserve for bad debts.

By the terms of the partnership agreement, 6% interest is to be allowed each partner on his capital account and 6% interest is to be charged on all drawings in excess of salary allowances. Wood is allowed a monthly salary of \$150; Pollard, \$200; Johnson, \$225. The salary of each partner for September has been credited to the respective drawing accounts.

The following are required:

- (a) Trading and Profit and Loss Statement (show percentage).
- (b) Balance Sheet (account form).
- (c) Closing Entries.

EXERCISE 34

Norwood National Bank

Trial Balance, December 31, 1914

Real Estate.....	\$47,500.00	
Capital Stock.....		\$300,000.00
Furniture and Fixtures.....	15,000.00	
U. S. Bonds (Reg. 2's).....	100,000.00	
Circulating Notes.....		90,000.00
Cash.....	172,718.00	
Due from Banks.....	426,480.90	
Due to Banks.....		336,513.85
Time Loans.....	75,000.00	
Demand Loans.....	25,000.00	
Bills Discounted.....	478,311.31	
Deposits.....		432,782.95
Certified Checks.....		7,450.72
Discount.....		29,412.60
Interest on Time Loans.....		15,812.62
Interest on Demand Loans.....		12,712.20
Salaries of Officers.....	20,000.00	
Salaries of Clerks.....	21,000.00	

Stationery and Printing.	\$1,200.00	
Advertising.	2,500.00	
Legal Expense.	2,000.00	
General Expense.	5,112.80	
Surplus.		\$165,608.87
Undivided Profits.		4,816.50
Collection Charges.		812.60
Safe Deposit Box Rentals.		3,870.00
Interest on Depositors' Balance.	6,832.70	
Wages of Porters and Janitors.	2,750.00	
Cashier's Checks.		4,112.80
Interest on U. S. Bonds.		2,000.00
Redemption Fund 5%.	4,500.00	
	<u>\$1,405,905.71</u>	<u>\$1,405,905.71</u>

The following are required:

- (a) Statement of Revenue and Expense.
- (b) Balance Sheet.

EXERCISE 35 JOURNALIZING

1. Sold to J. H. Brown merchandise amounting to \$2560. Received in payment H. C. Robbins' note for \$1290 with interest accrued for 62 days at 6%. Balance on account 30 days.

2. Bought of J. H. Howard merchandise, \$1050. Gave in payment John Smith's note for \$450 discounted for 91 days at 5%, draft at 10 days' sight on H. J. Harris for \$200 and my note at 60 days to balance. Freight paid in cash, \$8.90.

3. J. H. Sommers owes me \$1200. I offered him a discount of 3% for cash. Sommers not having the money discounted his 90-day note at the bank at 7%, the note producing the sum required to discount my claim. Sommers' entry.

4. White owes Baker \$80 for which amount he gives his note at 3 months without interest. Baker has the note discounted at the bank on the same day and by agreement with White charges him with the discount. White defaults in paying the note and Baker has it to pay. White then turns over to Baker 20 bushels apples at \$1 per bushel, pays the discount with which he is charged in cash and gives Baker a new note for the remainder. Entries in Baker's journal.

5. Our teamster while delivering goods had a horse run away and china and glassware which had been sold for \$100 cash was totally destroyed. The horse was also killed, valued at \$150.

6. J. L. Mather becomes insolvent owing us at the time an account of \$127.65. He compromises with us by giving us his check for 30¢ on the dollar and a note which he holds on M. A. Hanna for \$50. We give him a receipt in full.

7. We hold J. R. Miller's note for \$500 dated April 6 at 4 months and bearing 7% interest. It is due today and he pays the interest, in cash, makes a payment of \$200 on the note and gives us a new note for the balance.

8. The store of E. E. Gray & Co. was broken into Sunday morning, April 12, and \$4962.70 taken from the safe. The bookkeeper is asked to make proper adjustment.

9. The First National Bank reports the collection of T. B. Spencer's note of May 1 in our favor for \$175, with 3 months' interest at 5%. Collection charges, \$1.27. They remit balance due us.

10. There is a balance due us of \$61.50 from C. E. Chase, lately deceased. The administrator notifies us that he left no property available for the payment of the debt. We close up his account on our books.

12. Mrs. Henry Warner buys the Millinery Establishment of Madam Fernald for \$2000. An inventory of stock and equipment shows the following: Materials \$550.75; Finished Stock, \$612.80; Accounts Receivable, \$472.69; Furniture and Furnishings, \$500; Charles W. Whittier holds a mortgage on the business for \$600, which Mrs. Warner assumes; she also assumes Accounts Payable for \$295.87. She makes a cash payment of \$1200 and gives two notes of equal amounts for the remainder, running six months and one year respectively, and bearing 6% interest. Make opening entry for the books of Mrs. Warner which are to be kept by double entry.

13. Brown has a Customer Ledger, a Purchase Ledger, and a General Ledger, the latter containing controlling accounts with the other two. When his bookkeeper submitted to him trial balances of the three, he observed that White owed him \$100, subject to a cash discount of $2\frac{1}{2}\%$, and an allowance for outward freight of \$1.68, neither of which items has been entered in the books; and that he owed White \$100, subject to a discount of 4%, which had not been entered. He directed the bookkeeper to adjust the accounts by a remittance of stamps. Draft entry or entries that will close the two personal accounts and maintain the reconciliation of the Ledgers. Separate accounts are kept for Customers' Discount and Purchase Discount.

(From Massachusetts C. P. A. examination, June, 1913.)

14. Make adjusting entries for the following:

(a) Repairs to machinery during the year charged to Machinery and Tools, \$181.56.

(b) Error in figuring inventory not discovered until after books were closed, \$1000.

(c) Interest accrued on note of \$10,000 held by Thomas Moseley & Co., from August 1 to December 31, at 5%.

(d) Interest accrued on notes of customers held by the firm from the date each was given to December 31, \$462.50.

(e) Insurance premiums prepaid, \$250.

(f) Freight and Cartage account shows a debit of \$2790.42, one-third of this is to be charged to Purchases; two-thirds to Selling Expenses.

(g) Wages accrued, December 27 to 31, \$2162.44.

(h) Taxes accrued on factory buildings, \$462.80; on office building, \$263.75.

15. A has exhausted his credit with B. He needs further accommodation to the extent of \$2500, to obtain which he gives B a three months' draft on C for \$2500. This is \$1000 more than C owes A. To adjust this difference C draws at four months on A for \$1000. Assuming that the drafts have each been accepted, state the entries in A's books.

(From C. P. A. examination, New York, February, 1910.)

EXERCISE 36

PARTNERSHIP ADJUSTMENTS

1. X and Y bought merchandise to the amount of \$3000. X contributed $\frac{1}{3}$; Y, $\frac{1}{3}$. They afterwards sold Z a $\frac{1}{3}$ interest for \$1200. How much of this amount should X and Y receive respectively in order to make X, Y and Z equal partners?

2. A, B and C, agree to start in business with a capital of \$200,000 of which A is to furnish \$100,000 and B and C, \$50,000 each. A is to have $\frac{1}{2}$ interest in the business and B and C, each $\frac{1}{4}$. Interest at 5% is to be credited on excess, or charged on deficiency of capital. A contributes \$100,000, B, \$45,000, and C, \$40,000. How would the capital accounts stand on the books after adjusting the interest at the end of the year?

3. During the summer of 1909, D and S were equal partners in the oriental goods business in Lake Placid, N. Y. At the close of the season after all collections had been made and all debts paid there remained in the bank a balance of \$64.85. Their books of account showed that during the summer D had withdrawn \$219.80 and S \$132. At the close of the season they dissolved partnership but no immediate settlement was made and three months later when they came to settle, D had spent the remaining balance of \$64.85. At that time D entered a claim for personal goods to the amount of \$26 which he had contributed to the firm, and S, a similar claim for \$15.75. S demands a settlement. What amount is owing to him? Entries to adjust on firm's books.

4. Smith & Murray have been doing business as equal partners and have kept their books by single entry. They wish to admit Davis as a partner and have their books kept by double entry. Their books and inventory taken show the following assets and liabilities; merchandise \$9241; cash, \$850; real estate, \$3000; accounts receivable, \$6941; store fixtures, \$571. Smith's investment account credit, \$6400; Murray's investment account credit \$5390; accounts payable, \$4175; bills payable, \$975. Prepare statement of resources and liabilities and find each partner's present worth, after which make opening entry for the double entry set of books. Davis is admitted and invests cash, \$3000; merchandise, \$2000; bills receivable, \$1500. Make opening entry for Davis.

5. W. A. Wallace and A. M. Adams are equal partners. Adams wishes to retire from the firm and an adjustment is required. Wallace's capital account shows a credit balance of \$2000 and

Adams' a credit of \$2700. They agree to the following division of the assets: Adams takes cash \$1400 and notes receivable \$3700. Wallace takes the merchandise inventoried at \$5600, personal accounts receivable \$6300 on which he is allowed a discount of 10% for bad debts and he assumes the accounts payable \$1100 and notes outstanding \$2200. Arrange the above accounts in the form of a trial balance, find the net gain or loss and on the above basis of division of assets, find which partner is indebted to the other and how much.

6. December 31, 1911, after his books had been closed for the year, James Ryan's books show a net credit to his account of \$2500. J. W. Whiting holds a note against him of \$1500. Ryan agrees to admit Simons as a $\frac{1}{2}$ partner if Simons will lift the note. Simons does so. Journal entry to adjust in Ryan's books.

7. A and B are partners, A having invested \$2000 and B \$500, profits to be shared equally. The firm suffers losses so that the assets available for distribution amount to only \$1000. How should the \$1000 be divided?

8. A, B and C are partners, their capital accounts showing A, \$2000, B, \$500, and C, \$4500. The Balance Sheet shows a Cash balance of \$2200 and a deficit of \$4800. (a) How should the deficit be divided? (b) B is insolvent and the claim against him is worthless; state the proper division of the remaining assets.

9. Settlement of a partnership when a liquidation takes place and it is desired to distribute the assets in installments as soon as realized.

Partnership, A, B and C, each with a Capital account of \$10,000, profits and losses to be divided, 50% to A, 30% to B and 20% to C. A loss suffered of \$5000, leaving assets of \$25,000. Loss apportioned, leaving the claims of A, B and C at \$7500, \$8500 and \$9000, respectively. Assets sold in installments of \$10,000, \$8000 and \$6000, after which nothing remained. How should the first installment of \$10,000 be divided?

(Problems 7, 8 and 9 were taken from Hatfield's Modern Accounting.)

10. For the purpose of making a joint speculation, A contributes \$3000, B, \$2000, and C, \$1000, and they agree to share the profits or loss in proportion to the amounts contributed. October 15, 1900, A deposited the \$6000 with his broker, giving instructions to buy 300 shares New York Central and 300 shares Chicago, Burlington & Quincy. The order was executed October 16, 1900, N. Y. C. at $130\frac{5}{8}$ and C. B. & Q. at 127. April 10, 1901, under instructions from A, N. Y. C. was sold at $151\frac{1}{4}$ and C. B. & Q. at $191\frac{1}{2}$, a check being received from the broker to close the account. How much does A owe B and C for their interests in the deal, calculating interest at 6% (365 days to the year), commission at $\frac{1}{8}\%$, and revenue tax of \$2 for each 100 shares?

(From C. P. A. examination, New York, June, 1901.)

11. A, B and C were partners carrying on business with a capital December 31, 1900, of \$60,000, of which A's share was \$30,000, B's, \$20,000, and C's, \$10,000; each partner was entitled to 5% interest on his capital; profits or losses to be shared as follows: A, $\frac{1}{2}$; B, $\frac{1}{4}$; C, $\frac{1}{4}$. The partners agree, July 1, 1901, to dissolve. After all partnership assets had been realized, and all debts paid except \$500 legal expenses, there remained a balance in bank of \$38,550. Final settlement takes place December 31, 1901. Cash in bank bears interest from October 1, 1901. Show a statement for settlement and partners' Capital accounts as of December 31, 1901.

(From C. P. A. examination, New York, June, 1902.)

EXERCISE 37

RESERVES, SINKING FUNDS, ENDOWMENT FUNDS

1. Previous to closing the books the Pope Manufacturing Co. makes provision for depreciation for the year on fixed assets as follows:

(a) Depreciation of machinery, 10% of cost, \$139,682.70.

(b) Depreciation of auto truck used in the delivery of goods to the freight house, 20% of cost, \$4000.

(c) Depreciation of office furniture and equipment, 5% of cost, \$3912.80.

Make necessary adjustment entries.

2. The W. J. Hilton Shoe Co. has an account with Reserve for Depreciation of Office Equipment, which is credited at the time of closing the books with the estimated depreciation of the office

equipment. This account now shows a credit of \$632.80. June 21, the company purchased a new safe costing \$600, and was allowed \$125 for the old one taken in exchange. The old safe cost \$400. Make necessary entries.

3. December 31, 1914, at the time of closing the books The Henry Hudson Co. set aside $1\frac{1}{4}\%$ of accounts receivable as a reserve for bad debts. The balance shown by the accounts receivable account on that date was \$62,747.93.

June 30, the accounts of R. W. Rollins & Co. for \$137.20 and of John C. Cutter for \$42.25 are written off, as repeated attempts have been made to collect them, and it is not thought worth while to bring suit against them.

September 1, a final dividend of 20% from the trustees in bankruptcy for Thomas Knight on a claim of \$638.20 was received. Previous to this, dividends of 30% and 20% had been received.

Make the necessary entries covering above transactions.

4. The Detroit, Toledo & Ironton Railroad on May 1, 1913, issues 4% bonds due May 1, 1943, to the amount of \$10,000,000 at 93 $\frac{1}{4}$. The bonds contain a sinking fund provision by which the company agrees to transfer to sinking fund trustees annually such a sum as will amount to the par value of the bonds at maturity, allowing interest at 4%.

(1) Make entry showing the issue of the bonds.

(2) Show form of entry to be made annually to meet sinking fund requirements.

5. A corporation has been accustomed to charge the purchase of machinery to the Machinery account at cost, and each year to charge the Manufacturing Expenses account and to credit Reserve for Depreciation of Machinery account with an amount which will offset the cost of the machinery by the time it is estimated that it will be advisable to scrap the machines. During the period that you have been employed to audit the accounts, you find that the corporation has sold two machines for \$500 each, and this amount has been credited to the Machinery account. One of them cost \$1000, and the amount reserved for depreciation on this machine is \$600; the other cost \$1500 and the amount reserved for depreciation is \$850. Make the adjusting entries to correct the books.

(From Mass. C. P. A. examination, June, 1913.)

6. Amherst College received a bequest by will of \$100,000 from the estate of D. Willis James, to be known as the Seelye Fund. This fund was invested by the trustees in securities yielding an annual income of \$5692.67. Show by skeleton ledger accounts how the accounting for this fund would appear on the books.

If the \$100,000 had been invested in Pennsylvania R.R. 3 $\frac{1}{2}$'s, in denomination of \$100. at 93 $\frac{7}{8}$, usual brokerage, what would have been the annual income from the investment? The rate of income? How much of a balance would have remained uninvested?

7. Journalize the following: October 3, the Deerfield Library received a cash gift of \$5000 from Patrick L. Sullivan, the income to be used in the purchase of standard Catholic books. October 16 the money was invested in stock of the Commercial Bank at \$260 per share. December 1 a quarterly dividend at the rate of 12% per annum was received on the bank stock.

8. January 2, 1912, the Huntington Hospital received from the executors of the estate of James P. Cutter the sum of \$100,000 for the creation of a fund to be used in the purchase of a lot and the erection and equipment of a building for the treatment of cancer. The fund was to be placed in the hands of the trustees and to be kept invested by them for five years before beginning work on the building.

February 10, 1912, the trustees pay Henry W. King \$100 for an option on a piece of land which they are considering for the site of the new building.

March 1, 1912, the option on the land is taken up and a check is given Mr. King for \$5000, the purchase price, less the option previously paid. Pay \$25 for search of title, for recording deed and other expenses connected with the purchase.

March 28, 1912, the trustees selected the following investments for the remainder of the fund, making the purchase through the banking house of C. A. Ellis & Co.

\$20,000 New York Telephone Co. 4 $\frac{1}{2}$'s at 101.

\$10,000 Illinois Central R. R. Co. Gold Bonds 4's at 98 $\frac{1}{4}$.

\$25,000 Pittsburgh, Cincinnati, Chicago & St. Louis R. R. Co. 4 $\frac{1}{2}$'s at 102 $\frac{1}{4}$.

\$10,000 Western Union Telegraph Co. 4 $\frac{1}{2}$'s at 105.

\$27,000 Southern Pacific R. R. Co. 1st Mtg. 4's at 98 $\frac{1}{4}$.

The remaining portion of the fund was deposited in a savings bank.

January 1, 1917, the income from securities in which the fund was invested has amounted to \$26,312.60. October 12, 1918, the new building is completed and the architects release the contractor. All costs of construction, amounting to \$190,627.80, have been paid in full. The remainder of the fund is used in equipping the hospital.

Make all necessary entries.

9. A corporation issues 10-year bonds to the amount of \$50,000 securing same by a mortgage on its property, which is placed in the hands of a trust company. The trust deed provides for the establishment of a sinking fund to retire the bonds at maturity and that equal annual payments be made on the first of January in each year. Give the amount of this annual payment, interest being compounded annually at 6%.

(Examination for Chartered Accountants of Manitoba, May, 1910.)

EXERCISE 38

BOSTON EXAMINATION, 1911

Bookkeeping — Part I

Wm. L. Knight and T. H. H. Anderson began business January 1, 1910, each investing \$8000, on which he was to receive interest at 6%. Each partner was to be charged interest at 6% on his drawings. The amounts shown were drawn at the middle of the year.

Trial Balance, December 31, 1910

Wm. L. Knight, Capital.....		\$8,000	
T. H. H. Anderson, Capital.....		8,000	
Real Estate.....	\$2,500		
Furniture and Fixtures.....	450		
Horse and Wagon.....	350		
Cash.....	1,030		
Merchandise.....	17,980	13,650	
Shipments.....	2,870	1,600	
Office Supplies.....	50		
Bills Receivable.....	1,200		
Accounts Receivable.....	4,900		
Bills Payable.....		120	
Accounts Payable.....		1,100	
Consignments.....		480	
Commission.....		800	
Charges.....		120	
Merchandise Discount.....		350	
Expense.....	1,090		
Interest.....		40	
Freight.....	180		
Advertising.....	50		
Real Estate Maintenance.....	60		
William L. Knight, drawings.....	750		
T. H. H. Anderson, drawings.....	800		
Totals.....	\$34,260	\$34,260	

Inventories: merchandise, \$7120; insurance unexpired, \$80; office supplies, \$10; shipments, \$1560.

Allow for the following: depreciation of office equipment, 10%; Real Estate, 4%; Horse and Wagon, 10%; loss by bad debt, \$40.

From the above trial balance prepare a Balance Sheet. Calculate interest on partners' investments and drawings, and adjust through Drawings account, leaving capital accounts undisturbed.

Prepare a Trading Account and a Profit and Loss Statement. Make Journal entries for

closing the books in accordance with the results shown by the above statements; transferring the net gain or loss to the Drawings account.

Show Knight's Drawing account, the Merchandise account, and the Loss and Gain account after closing.

Shaw & Co., a partnership conducting a manufacturing business, conclude to incorporate. The firm has the following assets and liabilities:

Cash.....	\$5,000	Accounts Payable.....	\$20,000
Accounts Receivable.....	30,000	Shaw, capital.....	45,000
Plant and sundry assets.....	165,000	Mace, capital.....	45,000
		Laird, capital.....	45,000
		Page, capital.....	45,000
	<hr/>		<hr/>
	\$200,000		\$200,000

They incorporate the Shaw Manufacturing Co. with an authorized capital of \$200,000, divided into 1000 shares of 7% preferred stock and 1000 shares of common stock, both classes of stock at \$100 par value. Each partner is to receive \$25,000 of the preferred stock and \$20,000 of the common stock for his share in the business. The remainder of the stock is to be held for sale.

Make Journal entries for the following:

The partnership books are to be closed.

The corporation books are to be opened.

Each of the four shareholders donates to the corporation \$5000 of the common stock to be sold at such price as will produce immediate cash capital.

Sold the donated stock at 95, for half cash and half note.

Sold for cash 50 shares common stock at 105.

The net profits for the year were \$17,000.

A dividend was declared on the preferred stock, and a dividend of 6% was declared on the shares of common stock outstanding.

At the end of the second year all stock had been sold. The net profits were \$11,000. To declare the preferred dividend and a dividend of 6% on the common stock, it became necessary to apply profits earned during the preceding year.

A bond issue of \$50,000 was authorized. At the end of three months 10,000 of the bonds were sold at 101 and accrued interest amounting to \$125.

Three months later 10,000 of bonds were sold at 98 and accrued interest, \$250. At the end of the year bond interest was paid, \$1500. \$2,498.75 was set aside as the first installment of the sinking fund.

Explain "going inventory," "physical inventory."

What is meant by "unit billing" and by "condensed" billing? Under what conditions is each to be recommended?

Define "fixed assets," "current assets," "fixed liabilities," "current liabilities." Give two illustrations of each.

EXERCISE 39

BOSTON EXAMINATION, 1912

Bookkeeping — Part I. (Sixty Points.)

Date of trial balance, December 31, 1911.

A. H. Dane, Capital, \$10,000; C. E. Freeman, Capital, \$8000; Inventory, January 1, 1911, \$14,000; Merchandise Purchases, \$30,000; Accounts Receivable, \$3720; Traveling Expenses, \$200; Return Sales, \$1000; Store Equipment, \$1200; Salaries and Help, \$1800; Sales, \$41,000; Interest (on bills payable), \$75; Collections and Exchange, \$5; Insurance, \$100; Purchase Discounts, \$350; Real Estate, \$5000; Freight, \$110; Bills Receivable, \$900; Horses and Wagons, \$840; Stable Expense, \$1400; Bills Payable, \$1500; Cash, \$1320; Rox Knitting Mills Stock, \$1000; Dividend, R. K. M. Stock, \$70; Discounts on Sales, \$400; Inventory, December 31, 1911, \$8000; Rents Received, \$300; Accounts Payable, \$1460; Mortgages Payable, \$2000; Store Expense, \$1610.

Store equipment has depreciated in value 7%; unexpired insurance amounts to \$50; a note of \$75 is worthless; taxes for one year are due, but unpaid, \$250.

- (a) Form a trial balance of the above items.
- (b) Make a loss and gain statement on right and left pages of a sheet of Journal paper.
- (c) Make a statement of resources and liabilities on right and left pages of Journal paper.
- (d) Make closing entries through the Journal. The partners are to share gains or losses equally, the net amount being carried to their capital accounts.

Bookkeeping — Part II. (Sixty points.)

1. Show a form of bank reconciliation on Check Book stub with five checks outstanding. Provide all amounts.

2. During a coal famine a mercantile concern that had a large supply of fuel, purchased at \$6 per ton, and charged to expense account. Sold fifty tons of coal at \$12 per ton. Discuss and make an entry with adequate explanations.

3. The Regal Lamp Company, Birmingham, consign, on December 15, to M. Marconi of Milano, 500 "Radiant" Electric Lamps, invoiced at 18s. each, and pay freight, £5 18s. 6d., and insurance, £2 15s. One hundred and twenty-five lamps were damaged by storm, and M. Marconi receives £72 in settlement from underwriters. He sells 250 lamps for £240, and on January 30 sends account sales and bankers' draft for balance due to consignors, after charging his agency expenses £5 10s. and commission, £15 12s. Give the entries as they would appear in the Regal Lamp Company's Ledger.

4. What do you understand by "good will"? Does it appear on the books as an asset or a liability, and how is its valuation determined?

5. Describe the best method you know for handling such payments of cash as must necessarily be paid from the drawer and not by check.

6. If an auditor were to examine your books, what is there to convince him that you have properly accounted for every cent received and paid? Make your explanation complete.

7. In Massachusetts, what books does the Business Corporation Law require to be kept?

8. If you were bookkeeper for a large corporation in which there were at least two daily stock transfers, how would you keep a record of the shareholders and their holdings? Show the form of any special book required.

EXERCISE 40

WONDER MACHINE SHOE COMPANY

(Boston Examination, 1914)

From the trial balance of the Wonder Machine Shoe Company prepare a balance sheet and statement with sections showing manufacturing costs, trading results and profit and loss.

Reserve for the depreciation of machinery, 10%; of tools, 10%; of lasts and patterns, 20%. Reserve for loss from bad debts an amount that, when added to the reserve for that purpose already in force, will make the sum 1% of the book accounts.

Inventories, December 31, 1913

Raw Materials.....	\$5,397.24
Factory Supplies.....	820.20
Fuel.....	1,592.17
Goods in Process.....	18,493.12
Finished Goods.....	8,898.61
Interest Accrued on Notes held.....	37.00
Interest Accrued on Notes outstanding.....	55.00

Work done with a pencil, and rulings made freehand will be accepted.

Trial Balance, December 31, 1913

Real Estate.....	\$81,035.00
Machinery and Equipment.....	57,750.00
Tools.....	5,259.00
Lasts and Patterns.....	35,260.00
Office Equipment.....	3,396.00

Raw Materials, Inventory, January 1.....	\$14,378.40	
Goods in Process.....	23,631.50	
Finished Goods.....	15,686.31	
Accounts Receivable.....	62,316.50	
Bills Receivable.....	4,388.45	
Cash.....	22,902.63	
Good-Will.....	30,000.00	
Reserve for Depreciation of Lasts and Patterns.....		\$15,411.75
Reserve for Bad Debts.....		361.22
Accounts Payable.....		18,580.70
Bills Payable.....		6,500.00
Capital Stock.....		200,000.00
Surplus.....		7,329.46
Mortgages Payable.....		20,000.00
Sales.....		419,752.35
Discount on Purchases.....		7,290.40
Factory Supplies.....	8,817.62	
Raw Material Purchases.....	145,481.69	
Labor.....	110,371.84	
Freight Inward.....	1,845.25	
Indirect Labor.....	5,193.00	
Manufacturing Expenses.....	14,280.30	
Selling Expenses.....	25,792.65	
General Expenses.....	16,123.75	
Interest.....	110.60	
Allowances to Customers.....	552.25	
Discount on Sales.....	8,818.75	
Collection and Exchange.....	340.81	
Return Sales.....	1,493.58	
	<u>\$695,225.88</u>	<u>\$695,225.88</u>

EXERCISE 41

CHICAGO EXAMINATION FOR TEACHERS, 1915

Accounting — High School — Major

Theory Paper. Time: Three Hours. (A Practice Paper is to be written later)

Note. Penmanship and form will be regarded as important factors in determining the qualifications of applicants.

The numbering of question and answer must agree.

I

What are the objections to making petty cash disbursements in actual cash from the regular cash receipts? Outline a modern and scientific method of handling such items.

II

In corporation work what accounts appear temporarily upon the books? Under what circumstances will they be discontinued?

III

- What is an intangible asset?
- Give at least four illustrations.
- How will any increase or reduction in the value of such assets be shown in the Ledger?
- What abuses are apt to develop in connection with such assets?

IV

Explain the following points with reference to assets of doubtful value:

- How handled in making out a balance sheet.
- How closed in case it is decided to carry them no longer on the books.
- The required bookkeeping in case they finally turn out to be good.

V

- (a) What is meant by closing one account into another?
- (b) Name all of the circumstances under which this is done, and state the explicit object in each case.

VI

- (a) In what respects is the proprietor's investment account different from the capital stock account?
- (b) Are there any good reasons why investment and capitalization should not be the same? Give reasons for your answer.

VII

- (a) How does cost accounting differ from bookkeeping?
- (b) How are cost records usually kept?
- (c) How may these records be used to the advantage of the business?
- (d) Give what you consider a scientific system of diffusing or distributing overhead expenses.

VIII

In a bookkeeping class consisting of thirty pupils, where the work is to be done in the class room, would you keep all members of the class together or would you permit each pupil to proceed with the work as rapidly as his ability would warrant? Give reasons for reply.

IX

First-year high school pupils are conceded to be immature and inaccurate. What would be your plan of keeping a check upon their work with a view to getting the best possible results from the standpoint of neatness and accuracy?

X

- (a) What, in your judgment, is the proper apportionment of time between the recitation and practice work?
- (b) How may bookkeeping best be taught with a view of developing the reasoning powers of the pupil?
- (c) Copying is often resorted to by dishonest and backward pupils. How would you detect this and break up the practice?

Accounting — High School — Major

Practice paper. Time: Two Hours

Note. Penmanship and form will be regarded as important factors in determining the qualifications of applicants.

The numbering of question and answer must agree.

I

- (a) Write up and close, with two inventories, a general expense account into which at least three other accounts have been closed.

Furnish your own data for this exercise.

- (b) Explain each item in the account.

II

The old-fashioned method of handling a merchandise account was this:

The account was debited with the original inventory and the subsequent purchases. It was credited with the sales. Criticize this method of handling the account and outline a better one. Illustrate by means of Ledger forms.

III

Furnish your own data and work out a shipment account and the corresponding consignment account of the commission merchant.

IV

A, B and C are partners in a general merchandise business. Their assets are as follows: Cash, \$5449.86; merchandise, \$20,000; real estate, \$6000; fixtures, \$2000; accounts receivable, \$1000. The balance sheet shows that A's interest is \$12,560.28; B's, \$10,460.95; C's, \$11,428.63. They have decided to incorporate the business for \$50,000, each taking \$10,000 worth of stock in the new enterprise and withdrawing the balance of his interest in cash. D, E, F and G have subscribed for the remaining \$20,000 of stock, each agreeing to take \$5000 worth, and to pay for it in cash. Make the entries required for closing up the partnership books, and the opening entries for the corporation.

V

Make out a balance sheet from the information furnished by the following trial balance and statement of conditions:

J. W. Brown, Partner.....	\$100.00	\$5,689.28
E. B. Smith, Partner.....	150.00	5,728.59
Merchandise.....	21,568.92	19,568.39
Expense.....	569.81	15.25
Fixtures.....	750.00	
Notes Receivable.....	865.90	315.28
Interest.....	28.65	48.50
Notes Payable.....	100.00	450.00
Accounts Payable.....		530.00
Accounts Receivable.....	1,851.62	
United States Bonds.....	2,000.00	
Shipment to D. A. Ford & Co.....	875.00	950.00
Real Estate.....	850.00	
Cash.....	3,585.39	
	<u>\$33,295.29</u>	<u>\$33,295.29</u>

Inventories: Merchandise, \$6289.38; expense debit inventory, \$75.50; credit inventory, \$40.92; fixtures, \$685; interest debit inventory, \$12.59; credit inventory, \$15.82; United States Bonds, \$2050.75; real estate, \$900.

A reduction of 2% is to be allowed on accounts receivable on account of bad debts. The partners are to share equally in the gains.

EXERCISE 42

EXAMINATION TO QUALIFY FOR POSITION AS TEACHER OF COMMERCIAL
SUBJECTS IN THE HIGH SCHOOLS

Newark, New Jersey, May 3, 1913

Part I

Bookkeeping — Section I

Make entries for the following: (Unrelated transactions except as noted.)

April 1, 1913. Henry J. Adams and Frank Smalley have been conducting a grocery and a china business respectively, and have decided to form a partnership under the firm name of Adams and Smalley, and combine their businesses. Adams owns the building he occupies, which will be used by the combined business and is valued at \$10,000, with a mortgage on the same of \$6000 on which interest has been paid up to January 1. His stock is worth \$4500, he holds a note against James Brown for \$500 with interest, dated December 1, 1912, a note against Joseph Smith due in 45 days for \$400, and has accounts against customers for \$1800. He owes an account of \$1500, and a note in favor of Brown Brothers for \$600, due in 60 days. He invests the above at their present value, together with cash to make his net investment \$10,000. Smalley invests his stock valued at \$7500, his horse and wagon worth \$500, and cash \$2000.

April 5. You hold a note for \$300 against H. Dunning due today. He pays cash \$150, and gives a new note at 30 days for \$176 to cover balance of note and interest.

April 7. Your note favor of E. Harris for \$500 with interest at 6 months is due today. You pay him cash \$100, give him James Small's note due in 90 days for \$300, for which he allows you the proceeds. He agrees to wait 15 days for the balance.

April 8. Buy of H. W. Harrison merchandise \$650. Give him in payment Dunning's note received the 5th inst., less discount for unexpired time, a draft at sight on A. C. Yates for \$250, and your check for the balance.

April 10. Exchange notes at 30 days for \$250 with Charles F. Clark for his accommodation.

April 12. The bank has notified you that A. C. Yates' note for \$300 due today, which you left for collection, had been dishonored. Protest fees \$1.50 which you pay in cash.

April 14. Sell H. O. Sibley merchandise to the amount of \$475. Receive in payment his note at 60 days for \$250 with interest added, a sight draft on W. W. Clark for \$100, and a New York draft for the balance.

April 16. W. W. Clark has refused to accept the draft drawn on him by Mr. Sibley in your favor the 14th inst. and you return the draft to Mr. Sibley.

April 18. You have shipped merchandise costing you \$75, to Schmidt and Co. of New York to be sold on your account and risk, accompanied by a sight draft for \$200. Prepaid freight on the shipment \$17.80.

April 21. Schmidt and Co. have returned your draft with a letter stating that they are in financial difficulty and unable to pay it. You have asked the railway company to return the goods to you.

April 25. You sent Charles Maybury yesterday your 30-day note for \$165, and have discovered today that by mistake you debited Notes Receivable and credited Maybury.

April 30. Paid cash for show cases for store, \$50; for repairing delivery wagon, \$12; for book-keeper's salary, \$80; for building addition to barn, \$650; for telephone bill, \$3.50; for hay and grain for horse, \$18; for new harness, \$40.

Section II

From the following information, prepare

- (a) Trading and Profit and Loss Statements.
- (b) Balance Sheet.
- (c) Journal entries to close the Ledger.

The trial balance of Holmes and West on December 31, 1912, is as follows: C. B. Holmes, Capital Account, \$16,276.18; N. M. West, Capital Account, \$8138.09; Notes Receivable, \$3976.49; Accounts Receivable, \$13,649.13; Notes Payable, \$2698.47; Accounts Payable, \$5748.35; Cash, \$7165.77; Furniture and Fixtures, \$967.25; Delivery Equipment, \$4475; Insurance, \$118.25; Petty Cash Drawer, \$200; Sundry Resource Inventories, \$112.06; Sundry Liability Inventories, \$27.45; Inventory Account, \$3678.14; Purchases, \$26,495.03; Returned Purchases, \$184.41; Purchase Rebates and Allowances, \$37.41; Sales, \$30,291.89; Returned Sales, \$77.16; Warehouse Supplies, \$176.19; Warehouse Labor, \$180.50; Freight In, \$769.19; Freight Out, \$177.23; Sales Rebates and Allowances, \$79.16; Sales Discounts, \$704.52; Purchase Discounts, \$698.12; Expense, \$756.39; Selling Expense, \$195.14; Delivery Expense, \$113.50; Traveling Expense, \$53.82; Interest on Notes Receivable, \$27.14; Insurance Expense, \$10.75; J. D. Mason, Salesman, Cr., \$3.16. The Merchandise Inventory at the time of closing is \$5227.86.

Section III

1. In what way does the trial balance made immediately before the books are closed differ as to amounts and contents from the trial balance made immediately after the books are closed?

2. What effect will each of the following errors have on the books, as to accounts affected, trial balance and statements?

- (a) Error in calculating a bill of goods for a customer.
- (b) Omission of a Journal entry crediting a note received on account.
- (c) Posting a credit entry twice.
- (d) Posting an amount to the wrong side of an account.
- (e) Error in adding the sales book.
- (f) Neglecting to bring down a balance of an account.

3. Give your opinion as to the merits or demerits of each of the following: (a) Voucher system of handling payments. (b) Special columns in books of original entry. (c) Loose-leaf records. (d) Card Ledgers.

EXERCISE 43

EXAMINATION FOR LICENSE TO TEACH IN HIGH SCHOOLS, COMMERCIAL BRANCHES

Department of Education. The City of New York
November, 1911

Bookkeeping

1. Prepare a Profit and Loss Statement and Balance Sheet from the following Trial Balance:

Trial Balance, December 31, 1910	
W. W. Smith, Capital Account.....	\$25,000
J. J. Brown, Capital Account.....	15,000
Cash.....	\$9,000

Inventory, January 1, 1910.....	\$10,500	
Sales.....		\$80,000
Returned Goods.....	1,000	
Discounts Allowed on Sales.....	1,500	
Notes Receivable.....	15,000	
Purchases.....	45,000	
Discounts Allowed on Purchases.....		1,400
Salaries.....	6,500	
Reserve for Bad Debts.....		600
Accounts Payable.....		8,000
Real Estate.....	50,000	
Furniture and Fixtures.....	2,000	
Mortgage Payable.....		20,000
Insurance and Taxes.....	1,200	
Repairs.....	600	
Advertising.....	1,500	
Officers' Salaries.....	2,000	
Freight Inward.....	800	
Interest.....	870	
Reserve for Depreciation on Buildings.....		1,500
W. W. Smith's Drawing Account.....	2,700	
J. J. Brown's Drawing Account.....	1,330	
	<u>\$151,500</u>	<u>\$151,500</u>

Value of goods on hand, December 31, 1910, \$15,000; salaries due and not paid, \$150; insurance and taxes prepaid, \$200; reserve for bad debts on accounts received, 2%; depreciation on real estate, 2%; profits apportioned: Smith, $\frac{5}{8}$; Brown, $\frac{3}{8}$; no interest allowed on capital or charged on withdrawals. (40)

2. Define (a) fixed assets and (b) floating, or circulating assets; and give two illustrations of each. (10)

3. A firm has a branch house, which receives all goods from the head office, but keeps its own Sales Ledger, collects all bills from customers and forwards the total of cash to the head office each day. All wages and expenses are paid by the head office.

From the following, supplied by the branch house, show the branch house account in the head office Ledger:

Cash Received from Customers.....	\$13,190
Cash Sales.....	7,100
Goods at Commencement.....	2,700
Goods at End.....	3,100
Personal Accounts Receivable at Commencement.....	6,250
Personal Accounts Receivable at End.....	7,650
Goods Received.....	10,600
Rent and Taxes.....	400
Wages.....	1,600
Expenses.....	300 (15)

4. Define contingent liabilities and give at least one example. (5)

5. A. E. White and R. W. Dale have been conducting a partnership business. White buys out Dale January 1, 1911, agreeing to pay him \$8000 cash for his share of the assets and good-will of the business as it now stands, and to assume the liabilities.

The following is the Balance Sheet of the firm of White and Dale:

Balance Sheet, December 31, 1910

Cash.....	\$2,900	Personal Account Pay.....	\$2,500
Personal Account Receivable.....	10,000	White's Capital Account.....	7,500
Inventory.....	1,000	Dale's Account.....	5,000
Furniture and Fixtures.....	600		
Chattels.....	500		
	<u>\$15,000</u>		<u>\$15,000</u>

Raise Ledger accounts showing the Capital account after the transfer resulting from the sale is completed. (15)

6. (a) Define Cost Accounts and explain their relation to the regular (financial) accounts.
- (b) Define depreciation, and explain the advantage in keeping a depreciation account.
- (c) Explain Subscription Book (of a stock company) and its relation, if any, to the main Ledger. (15)

EXERCISE 44

EXAMINATION FOR LICENSE TO TEACH IN HIGH SCHOOLS

Department of Education, City of New York

December, 1912

Commercial Branches — Bookkeeping

Time: Three Hours. Candidate's No.

1. A trial balance of the Brown Manufacturing Company on January 1, 1912, after closing the books was as follows:

Trial Balance, Brown Manufacturing Co., January 1, 1912

Capital Stock Authorized.....		\$250,000
Unsubscribed Stock.....	\$20,000	
Surplus.....		3,000
Plant and Machinery.....	178,000	
Furniture and Fixtures.....	4,500	
Raw Material, Inventory January 1.....	48,000	
Finished Goods, Inventory January 1.....	5,000	
Fuel, Light and Oil, Inventory January 1.....	1,125	
Office Supplies, Factory, Inventory January 1.....	300	
Office Supplies, Selling Office, January 1.....	275	
Notes Receivable.....	20,000	
Accounts Receivable.....	39,000	
Cash.....	5,300	
Notes Payable.....		12,000
Accounts Payable.....		29,500
Reserve for Bad Debts and Notes.....		1,000
Reserve for Plant and Machinery.....		26,000
	<u>\$321,500</u>	<u>\$321,500</u>

During the six months following, the volume of business transacted was:

Purchases of Raw Material for Cash.....	\$2,000
Purchases of Raw Material on Account.....	325,000
Notes Issued to Creditors on Account.....	42,000
Sales of Finished Product for Cash.....	15,000
Sales of Finished Product on Account.....	375,000
Notes Received from Customers on Account.....	70,000
Goods Returned from Customers.....	2,650
Discount on Sales.....	1,600
Raw Material Returned.....	5,875
Discount on Purchases.....	1,900
Cash Received from Customers on Account.....	294,000
(In addition to the above receipts, one customer who owed \$1400 paid 50¢ on the dollar, balance lost.)	
Notes Receivable Discounted at Bank, Face.....	21,000
Discount on above Notes.....	450
Notes Receivable and Interest Paid at Maturity:	
Face of Notes.....	52,000
Interest.....	600

Notes Payable and Interest paid at Maturity:

Face.....	\$45,000
Interest.....	850
Cash paid to Creditors.....	198,400

Other transactions were, cash payments as follows:

Freight and Cartage In.....	\$666
Freight and Cartage Out.....	400
Insurance on Plant and Machinery.....	1,200
Maintenance and Repairs.....	6,200
Factory Salaries.....	7,400
Direct Labor.....	80,500
Indirect Labor.....	5,000
Fuel, Light and Oil.....	2,275
General Expense, Factory.....	900
Selling Expense.....	13,000
Advertising.....	2,000
Legal Services.....	350

A regular quarterly dividend of 2% on the outstanding stock was declared and paid.

Construct a trial balance of totals as of June 30, 1912. (30)

2. Prepare a manufacturing, trading and profit and loss statement from your trial balance in question, giving due consideration to the following facts:

Inventories, June 30, 1912

Finished Goods.....	\$10,500
Raw Material.....	25,000
Insurance Unexpired.....	800
Direct Labor Unpaid.....	600
Fuel and Oil.....	150
Furniture and Fixtures, Book Value less 10%.....	
Interest Accrued on Notes Receivable.....	47
Interest Accrued on Notes Payable.....	38

Provide for 5% depreciation on plant and machinery, and 2% for reserve for bad debts and notes. (50)

3. Discuss the subject of bookkeeping with reference to the following: (a) its value as a vocational study, (b) as involving the principles of business organization and administration, (c) as a means of acquiring a knowledge of business customs and procedure, and (d) as an agency of constructive mental discipline. Where should you place the emphasis in teaching the subject? Give reasons. (20)

EXERCISE 45

May 11, 1915

CITY OF NEW YORK

EXAMINATION FOR LICENSE TO TEACH IN HIGH SCHOOLS, APRIL, 1915

Bookkeeping

Time: Three Hours

1. On January 7, 1915, when balancing Cash, you found that you had \$153.75 more cash than was called for by your books. Part of it was due to the following, which you corrected: Duplicated an entry on the credit side for \$12 paid for postage; an error of \$10 in adding, making the debit side that much too small. (a) Not being able to locate any more errors, you make necessary entry to make cash balance. (b) On January 15, you recalled a cash sale of \$14.50 made on January 7, but not recorded. (c) On February 7, A. B. Potter returned you statement of his account, saying that he had paid \$75 on January 7, for which you failed to credit him. Make all necessary entries to adjust items (a), (b) and (c). (15)

2. A and B have been partners for one year. Their books have been kept by single entry.

From the following facts make suitable entries to adjust the loss or gain and to change the books to double entry, continuing the old Ledger:

A invested \$32,690 and withdrew \$3500.

B invested \$14,010 and withdrew \$500.

Cash on Hand.....	\$7,200
Accounts Payable.....	9,734
Accounts Receivable.....	12,455
Notes Receivable.....	2,150
Notes Payable.....	3,366
Real Estate.....	8,400
Plant.....	11,200
Merchandise on Hand.....	22,200

Because of unequal investments, it is agreed to share gains and losses in proportions of 7 and

3. (25)

3. C and D began business as partners on April 1, 1914. On March 30, 1915, their books showed the following balances:

Cash.....	\$4,312.00	
Petty Cash.....	64.50	
Mdse. Inventory, April 1, 1914.....	2,500.00	
C's Private Account.....	200.00	
Purchases.....	18,000.00	
Purchases Returned.....		\$325.00
Discount on Purchases.....		180.00
Sales.....		31,181.50
Sales Returned.....	400.00	
Accounts Receivable.....	7,000.00	
Accounts Payable.....		3,800.00
Notes Receivable.....	5,000.00	
Notes Receivable Discounted.....		1,000.00
Notes Payable.....		2,500.00
Rent.....	1,200.00	
Office Furniture.....	1,350.00	
Advertising.....	2,000.00	
General Expense.....	3,600.00	
Salesmen's Salaries.....	2,000.00	
Office Help.....	1,300.00	
Discount on Notes.....	60.00	
C's Capital.....		5,000.00
D's Capital.....		5,000.00

The following facts have been ascertained:

Mdse. on hand, valued at \$6280.

Office furniture valued at \$800.

Rent at \$100 per month paid to May 1, 1915. Light and other petty expenses for current month for which no bills have been rendered are estimated at \$150.

Salesmen's salaries earned but not paid, \$310.

From the above facts prepare:

(a) Balance Sheet, showing present worth of each partner.

(b) Trading and Profit and Loss Statement, showing loss or gain of each partner. (30)

4. Mention what you consider to be the three most valuable results to be obtained from the study of bookkeeping, aside from a technical knowledge of the subject itself. State briefly what means should be employed in teaching bookkeeping, to increase for the pupil each of these incidental values. (30)

